MARKETING OF SERVICES

DIRECTORATE OF DISTANCE EDUCATION

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SYLLABI-BOOK MAPPING TABLE

Marketing of Services

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INTRODUCTION

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The process of transforming an intangible product into a valuable, memorable and beneficial experience for a customer is what service marketing is all about. Service marketing is different from product marketing due to its intangibility. The same quality is responsible for the presence of the additional three Ps in the service marketing mix. Unlike product marketing where the marketing mix consists of product, price, promotion and place, service marketing also involves people, process and physical evidence. The 'people' aspect is related to the training and grooming of relevant staff to ensure proper delivery of service; the 'process' aspect is to do with the availability of proper systems to deliver the service on time and in the form desired; physical evidence is associated with the material aspect of the service offered, such as packaging, brochures, etc.

The main advantage of physical evidence is that it helps to create a good impression on the customers; the credibility of the service provider goes up and the productivity of the employee increases. The personal exchange that takes place between the customers and the service providers forms the essence of service marketing as you will understand from the contents of this book.

This book, *Marketing of Services*, is divided into six convenient units. The first one explains what a service is and goes on to compare goods and services. It also discusses service marketing and segmentation of service markets. The second unit concentrates on services positioning and differentiation. The third unit goes on to discuss the 7Ps of services marketing mix. It also discusses how to develop a marketing mix strategy. The fourth unit concentrates on the customer-focused services, covering the concepts of service quality, customer retention and relationship marketing in services marketing. The fifth unit talks of marketing of experiential services, such as tourism service, hotel service, hospital service, education service and entertainment/recreational service. The sixth unit discusses the marketing of counter services, which include bank services marketing, insurance services marketing, telecommunication services marketing, consultancy services marketing and transport services marketing.

The book follows the self-instruction mode wherein each Unit begins with an Introduction to the topic of the unit followed by an outline of the Unit Objectives. The detailed content is then presented in a simple and structured format interspersed with Check Your Progress questions to test the student's understanding. A detailed Summary and a set of Questions and Exercises are also provided at the end of each unit for effective recapitulation.

UNIT 1 CONCEPTS OF SERVICES

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Structure

1.0 INTRODUCTION

The marketing of services has now become a separate entity, and functions independent of the marketing of products and goods. There is an invariant need of services marketing in today's world with it being more necessary than products at some point. Services offered to consumers are intangible in nature without any physical transfer of products from a manufacturer to the end consumer. For successful marketing of services, a service provider needs to carefully assess his capabilities and resources available to him, after which he can conduct a market survey to decide upon a segment to provide the required service.

The service industry in India has grown at a considerable rate after the economic reforms of 1991. Globalization has brought with itself a vast change in the Indian service sector and the infrastructure of our country. Service industries such as aviation, hospitality, communication, etc., have reached a new high since then. Providing services has proved to be successful among consumers since they are involved on a personal basis with the service and the provision of many services being providing interaction between the service provider and the service purchaser. However, there is a great need for services to be segmented according to the target customers and their requirements which can be beneficial for service providers as they could serve their customers more effectively and in an efficient manner to ensure continuity of the purchaser. Consumer markets can be segmented on the basis of a consumer's lifestyle, personality, geographical location, age, benefits, usage, etc. Therefore, the marketing of services is an important segment of marketing, gaining more popularity among consumers due to the ease and comfort it provides to them.

1.1 UNIT OBJECTIVES

After going through this unit, you should be able to:

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- Understand the concept, characteristics and classification of services
- Examine the role of services in the Indian economy
- Discuss the essentials of services marketing
- Understand the difference between marketing of services from product marketing
- Identify the meaning, purpose, bases and processes of services market segmentation
- Examine the vision and mission of services marketing
- Discuss how the marketing of services is planned
- Understand how services are managed
- Identify the means of meeting customer expectations

1.2 CONCEPTS OF SERVICES: DEFINITION, CHARACTERISTICS AND CLASSIFICATION

It is difficult to provide a single definition of service. Most attempted definitions are incomprehensible. The concept of service has to be understood either as an exclusive offering from a company that is primarily intangible, or as a part of the service-product mix that a company offers.

At one level, service is an intangible offering with little or no transfer of physical products to the customer. Car rentals, insurance and education are examples of such services. The physical goods associated with the offering do not matter to the customer and he is primarily interested in the service part of the offering.

At another level service is one part of the product-service mix being offered to customers. Restaurants are examples of such services. The physical goods are as important as the service part of the offering and customers have to be satisfied with both parts.

At the third level, the main offering is the product, but the supplier also provides some services. Car service and installation of equipment are some such services. The product is the main consideration when a customer is evaluating such an offering but in times of increasing product-parity such ancillary services become the differentiating factor between offerings of competitors.

At the fourth level every product or service or any combination of a mix of the two ultimately is supposed to provide service for customers. Thus, a customer buys a car because it provides him transportation services. This idea is gaining ground as companies are increasingly trying to become customer-oriented.

Definitions of services

According to www.marketingpower.com, service(s) mean:

1. Service(s) mean products, such as a bank loan or home security, that are intangible or at least substantially so. If totally intangible, they are exchanged directly from

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producer to user, cannot be transported or stored, and are almost instantly perishable. Service products are often difficult to identify, because they come into existence at the same time they are bought and consumed. They comprise intangible elements that are inseparable; they usually involve customer participation in some important way; they cannot be sold in the sense of ownership transfer; and they have no title. Today, however, most products are partly tangible and partly intangible, and the dominant form is used to classify them as either goods or services (all are products). These common, hybrid forms, whatever they are called, may or may not have the attributes just given for totally intangible services.

2. Services, as a term, is also used to describe activities performed by sellers and others that accompany the sale of a product and aid in its exchange or its utilization (e.g., shoe fitting, financing, an 800 number). Such services are either presale or post-sale and supplement the product, not comprise it. If performed during sale, they are considered to be intangible parts of the product. The American Marketing Association defines services as - "Activities, benefits and satisfactions which are offered for sale or are provided in connection with the sale of goods."

   The American Marketing Association defines services as: "Activities, benefits and satisfactions which are offered for sale or are provided in connection with the sale of goods."

1.2.1 All Principles of Marketing Apply to Services

By their very nature, services impact customers more directly than products do. A customer walks into a restaurant and realizes immediately whether the ambience is pleasant or not. Few minutes into the facility, and most customers have already decided whether they have made the right choice of the service provider or not. Some services are more urgently needed than products. Patients may need the immediate attention of doctors. And again due to its very nature, service providers come in more frequent and intimate contact with customers, and therefore providers have more opportunities to please customers or disappoint them. For these reasons, marketing of services has to be more deliberate and considered.

A service provider has to carefully audit his resources and competencies, and then conduct market research to locate the segment which it can serve best. And when it comes to positioning, the provider has to be focused. The customer stays on the premises of the provider for long periods and has more chances of discovering discrepancies and inconsistencies in the provider's positioning plank. Customers are very clear about the quality of the service that they want. They walk into the premises expecting a certain level of service, and are disappointed if these expectations are not met. Such expectations are very precise. Positioning of services has to be razor sharp.

Services are more intractable than products because they come in various shades and hues. The provider has to define his service very precisely and also design the appropriate service-product mix. The basic service, like eating in a restaurant, is just one part of the entire service offering. The ambience, the music and the behaviour of the employees are other vital components of the service. Decisions have to be made very precisely as to how and in what degree the ancillary elements will be incorporated into the main service.

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Representing services in promotional methods like advertizing is extremely challenging due to its intangible and variable nature. Services need more creativity and focus to get the positioning plank depicted accurately. Service providers are in frequent touch with customers. A doctor has to be good at his primary task and he also has to be a good marketer, since his attitude and behaviour, besides his ability to cure, will determine his patients' opinion about the medical facility. The employees of service organizations come in frequent contact with customers, who make them important in the promotion and brand building exercises of the company. The service provider has to be an expert both in operations and marketing.

The same basic service, like surgery, can be provided in vastly different service facilities offering different levels of amenities and luxuries. Service offerings lend themselves to differentiation easily and the same basic service can be combined with other auxiliary services and priced differently. The service providers have huge price flexibility and charging the right price becomes a very important decision.

The same service can be delivered in various ways. With a proliferation of new technologies, the different ways that a service can be availed is only increasing. A customer can go to the bank and withdraw money, he can use an ATM to do the same job, he can use the phone, or engage in Internet banking. Even medical services will see a revolution with the establishment of new channels of delivery. Even critically-ill patients can stay at home while equipment attached to their bodies would transmit vital information about the functioning of their organs to doctors in hospitals who can prescribe suitable remedies.

Marketing mix conveys the positioning of a service or a product. In cases of services all the 4Ps are very flexible, i.e., many number of combinations of the 4Ps are possible to arrive at a marketing mix. But the segmentation criteria has to be very well-defined and the positioning has to be very sharp, because a customer is impacted instantly and very perceptibly as soon as he comes into contact with a service provider or enters a service facility. Service marketers face tremendous challenge in getting the marketing mix right to be able to convey their positioning plank because the marketing mix is flexible but the positioning has to be very pointed.

1.2.2 Nature of Services

It needs to be understood that services are different from products and this difference warrants a change in the way services are marketed. Services are intangible, perishable, and inseparable from the provider, and highly variable each time they are delivered. These characteristics of services have to be thoroughly understood so that appropriate operations and marketing structures are created to be able to produce and sell services profitably.

Intangibility

Customers cannot see, taste or touch pure services prior to purchasing them. A service is a deed, performance or effort. Services are experiential by nature. Evaluating a service prior to purchasing it is difficult for a customer; yet, the quality has to be assessed before the act of purchase. One cannot decide whether a vacation would be

enjoyable or not before going on it. It is not possible for patients to know for sure whether they would be cured until they have been operated upon. For some offerings such as getting a car serviced, its tangible nature makes it difficult for the service to be evaluated even after being consumed. Therefore, the service provider must utilize tangible cues to indicate service quality. For instance, travel agencies could display photographs of the destinations, show testimonials from satisfied clients and provide details of the kind of entertainment they offer. Similarly, garages could provide checklists of operations performed in the course of a particular service. The main task is to give evidence of service quality by providing tangible cues for an otherwise intangible offering, so that customers can evaluate the quality of services before purchase. A restaurant may thus convey quality by creating a great ambience, a clean kitchen, well-dressed and well-mannered staff, good table layout, great aroma of food to convey quality. Cues have to be provided by all service organizations to give customers an opportunity to judge the quality of the service offerings pre-purchase.

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Inseparability

Services involve simultaneous production and consumption. Service providers form an important element of the service and play a significant role in satisfying consumers. The manner in which a service provider conducts himself has a critical influence on the business being repeated beyond the service task's technical efficiency. In the eyes of he consumer, the provider, like the insurance representative or the doctor, is the organization. Rewarding the frontline staff, training, selection, etc. are of great importance in the achievement of service quality.

In services, individual providers such as doctors in medical services are better assurance for the customer than the service facility itself. Customers trust the individual service provider. It is important that individual service providers are promoted and their achievements are given wide publicity.

Presence of other consumers

The service may be consumed while other consumers are present. Potential sources of nuisance such as noise must be identified by service providers and proper arrangements made to prevent conflict among the customers. Hence, the service provider should target the right segment so that only the customers seeking similar benefits interested in the offering. Customers may stay together in the service facility for long periods of time and they can be a big nuisance for each other. If customers do not like the company of other customers, they will discredit the service provider. A service provider should be very careful about who he takes as his customer if he does not want to invite the wrath of other customers in the facility. The marketing mix should be so adjusted that it is attractive to customers who want to enjoy the service in a similar way.

Variability

It is difficult to standardize the provision of services. Service providers with varying skills and attitudes conduct their services at a number of different locations so that the service is produced and consumed at the same time. Unlike physical products, it is not possible to quality check a service fault such as rudeness and correct between the

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processes of production and consumption. Since service quality is variable, it becomes important to rigorously select, train and reward the staff of a service firm. The emphasis of training should be on the standard of behaviour expected of the employees when they deal with customers. In this regard, firms should develop and put in place some kind of evaluation system that enables the customers to report their evaluation of the personnel to the organization.

But the variability of services has a silver lining too. Service providers can anticipate the precise requirements and moods of the customers as they start interacting with them. An empathetic service provider will ensure that he customizes his service and his behaviour according to the requirement and mood of the customer. In fact, a service provider can publicize his ability to customize services for his customers.

The problem of variability can be tackled with the help of service standardization, which can be achieved by using reliable equipment such as vending machines and ATM instead of people. The efficiency and reliability of the equipment must be taken care of. The service demand and supply must be matched. When an individual service provider fails to perform his task, the customer takes it out on him and the provider has an opportunity to placate him. But when equipment like an ATM does not work, the customer straightaway believes that the service is not good and may stop going to the service provider without any hint. Whenever equipment is being used to provide a service, the service provider should ensure that it is working to the satisfaction of customers availing the services.

Perishability

Services cannot be stored for the future and hence their consumption cannot be deferred. Therefore, once a certain supply of services such as number of rooms on a hotel premises or number of seats in an airline have been created, there must exist adequate demand for them. Another problem involves having to cater to peak demand at the time of insufficient supply.

A key marketing task is to provide incentives when demand is low. Deep discounts should be offered to entice customers when the service facility is underutilized. Service facilities incur huge fixed costs while the variable cost of serving a customer is low. So even if customers are acquired by offering heavy discounts, they may still be profitable for the service provider.

It is possible to vary supply by using part time employees at the time of peak demand. In this case too, pricing and promotion play a very important role. Customers should be encouraged to avail the service at non-peak hours by charging them lower fees at these hours. It is important to remember that since services cannot be inventoried for future use, matching supply and demand becomes very important. Extra demand results in customers walking away without availing the services, and low demand results in the service provider not being fully utilized. Leading to loss of revenue and profit in both cases. Service providers should use promotion and pricing to shift demand from peak periods to non-peak periods to balance demand and supply.

- Shifting employees to tasks having higher demand is facilitated by multi-skilling.
- Customers could be encouraged to participate in the process of production, as in the concept of self-service.

- It may be possible to smoothen demand by means of differential pricing to persuade customers to visit the service provider at a time other than during peak demand. Off-peak demand could be stimulated through special events.
- If delay is unavoidable, then a comfortable waiting area should be provided for customers with proper seating and free refreshments.
- Service providers may also use a reservation system to balance demand and supply.

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1.2.3 Distinguishing Characteristics of a Service

There are numerous distinctive features that distinguish pure services from goods and that affect the manner of marketing them.

Services cannot be assessed

Services are essentially intangible in nature. Goods, on the other hand, are tangible. Tangibility allows customers to assess quality by using various senses and choice criteria. For instance, quality of products can be assessed by touching, feeling, smelling, or seeing them. Services, being intangible cannot be touched, felt, seen or owned. Since services are essentially experiential in nature, customers can judge them only after purchase. But this raises the perceived risk associated with them. Therefore, marketers use various tangible elements and quality cues, such as infrastructure in hotels, advertisements, qualifications of doctors in hospitals etc. to convey quality.

Production and consumption are inseparable

It is not possible to separate the production and consumption of services. They occur simultaneously. This raises the issue of managing demand. Companies must be able to predict likely demand for a certain period as accurately as possible. If demand forecasting is not very accurate, it can lead to long waiting periods, or lean periods. Either of these situations results in losses for the company.

Services cannot be stored

If service organizations do not have the ability to accurately estimate demand, there would either be idle capacity that would perish (for instance, hotels during lean periods), or there would be too much pressure on existing capacity (for instance, the same hotels during peak tourist seasons). Capacity needs to be utilized as and when it is generated. Therefore, marketers should try to even out demand by using various strategies such as promotional pricing, advance appointments, and so on.

Services are variable

Variability in services occurs due to the one-on-one interaction between an employee and a customer. Most services encounters involve interactions between an employee and a customer, both of whom are subject to vagaries. Service encounters thus cannot be standardized completely. Goods are produced of a certain quality that can be specified, and since machines are involved in the process of production, goods of exactly the same quality can be produced every time. However, due to the involvement of human beings in services, variability invariably creeps into the service delivery process.

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This affects the perceptions about service quality. In order to reduce variability, companies have used various methods such as extensive training for employees and customers, usage of technology as a substitute for employees, etc. However, it is not possible to completely substitute technology in case of most services. Some services such as those of a hairdresser or that of a surgeon cannot be substituted with technology.

Other features

A wide range of services are provided on a very small scale where economics of scale are minimal. Hairdressing, plumbing, legal services are usually provided by small units. These small players are less likely to undertake marketing research or have formalized marketing planning process.

There is presence of many public sector suppliers, because market mechanisms fail to distribute services effectively. The nature of service supply often creates potential monopoly problems.

Marketing environment of service organizations is subject to much more regulation than the goods sector. The fact that a service is intangible makes it more difficult for a potential customer to examine fully before purchase. Service supply involves a greater degree of trust than the supply of goods and consequently, regulations often seek to ensure that service delivery meets specification.

Highly intangible services such as banking, insurance and holidays are regulated by a combination of voluntary and statutory measures. In some sectors, customers seek to reduce their perceived risk by selecting only organizations that agree to have their relationship governed by trade association's code of conduct.

1.2.4 Role of Services in Economy

The problem of measuring services activity

Measuring the services sector can present as many problems as attempting to define services. Service sector statistics have not been recorded with the same degree of accuracy as the primary and secondary sector statistics. A number of services fall short of fitting neatly into the given categories, which makes obtaining a comprehensive image of the sector difficult.

Problems arise in measuring services, particularly overseas trade, because of their intangible nature. While it is quite easy to identify and measure the flow of tangible goods through ports, the same is not true of the flows of services. As far as a number of organizations in the primary and secondary sectors are concerned, numerous people are given employment in service-type activities such as transport, catering and cleaning. However, output and employment are attributed to the manufacturing sector. But now, the manufacturing industry contracting the services to external suppliers and thus the output can be attributed to the efforts of the service sector to make itself look larger despite the absence of any additional services being produced—it is simply a matter of switching from internal to external production.

Key trends in a developed economy

The importance of services to the economy has been increasing rapidly. The three methods that can be employed for assessing the changing relative importance of the service sector to the economy involve considering the following:

(i) The contribution made by services to the balance of payments
(ii) The proportion of the labour force employed in the sector
(iii) Its share of the GDP

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International comparisons

The services sector has accounted for most of the worldwide growth in employment since the oil crisis in 1973 but there are still significant differences in their impact between countries. It seems that there is a high correlation between an economy's level of economic development (expressed in terms of its per capital GDP) and the strength that its service sector possesses, although whether a strong service sector leads to economic growth or is the result of growth is not clear. The more developed economies are associated with higher per cent of workers employed in the service sector, such as USA (75.6 per cent, Canada (75.2 per cent), Australia (74.2 per cent). Less developed countries have fewer people employed in the services sector.

The service sector as a vehicle for economic growth

Growth in the service sector can result in economic growth to a nation in three ways:

(i) By offering an exportable activity which results in a net inflow of wealth
(ii) By reducing the need to buy in services from overseas that consume domestically produced wealth
(iii) By combining with other primary and secondary activities that allow new production possibilities for manufactured goods, increasing exports and reducing imports.

Services are often crucial in facilitating productivity gains in the other sectors of the economy. Transportation and distribution services stimulate economic progress. If such basic services are found to be lacking, it may cripple the growth of the other sectors of the economy. It is possible for services to have a multiplier effect on national and local economics insofar as expenditure is triggered by the initial spending with the producer of a service. Money is spent by the first producer in purchasing supplies externally, while these external suppliers buy further inputs. The multiplier effect of this can be seen in the fact that the initial spending results in the total growth in household incomes being much more than the original expenditure. For example, festivals or shows first create direct employment within the event themselves and then their ripple effect can be felt in other services such as hotels, restaurants, transport, etc.

Improving the efficiency of certain services such as distribution and transportation can positively affect the productivity of the other sectors. The service sector must be a valuable tool of regional development, for many services can involve a considerable labour-based production element. A major portion of the growth of the service sector reflects the buoyancy of the other two sectors. With the increase in the level of activity in the manufacturing sector, it has been observed that the demand for services such as business travel, legal services and accountancy services has also risen.

Overview of the Indian economy

It can be seen from the overall macroeconomic indicators for the year 2006-07 that a growth momentum, responsible for delivering a more than 8 per cent GDP in the two previous years, had been maintained. This offered some respite from the extraordinarily

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high prices of crude oil that had been prevalent in the past year, the Central Government's budgetary deficits were kept in check by buoyancy in tax revenues and a remarkable growth rate was observed for foreign capital inflow, especially FDI, and merchandise exports. There were increases in the policy interest rates by the RBI during the year including an increase in CRR, signaling a need for caution in lending activities to the banking sector. Generally an upward movement in stock prices, high levels of business optimism reflected in the Business Confidence Index, and articulation of a framework for accelerating economic growth over the next five years by the government are indicative of both anticipation of high growth and planning.

The first half of 2006-07 has experienced nine per cent growth in real GDP over the same period last year. The strong growth was achieved on the back of good performance by manufacturing sector and services. Agricultural growth was impressive, primarily reflecting the poor production conditions of the previous year's monsoon. GDP from agriculture and allied sectors increased by 2.5 per cent in the first two quarters over the same period in 2005-06 as compared to a growth of 10 per cent or more in the case of industry and services. The growth story has, therefore, been in industry and services.

The main question now relates to whether this growth can be sustained into the future. The year has witnessed a high output growth along with a high inflation rate. This has led to some apprehension regarding the supply constraints that might be emerging in certain sectors of the economy. The strength that the conventional demand constraints had, that resulted from conditions like scanty rainfall during monsoons that used to hamper growth, now seems to be declining as a result of the continued growth witnessed in external demand.

There are some alternative ways in which this question can be addressed. At the sectoral level, a problem faced by the agricultural sector has been insufficient rainfall in the current monsoon season. There were periods of deficient rainfall and also excessive rainfall during the month-long monsoon. Across the regions also there was an uneven experience with the monsoons in the current year. The North and South saw rainfall which was less than the long-term average whereas in the East and West the rainfall was above long-term average levels. Rainfall in the post-monsoon period of October-December has been less than long-term average for the period. Thus, output growth of agricultural sector is likely to be lower than in the previous year when real GDP from this sector increased by 3.9 per cent. The output of foodgrain has consistently fallen below the targets fixed by the government at the beginning of the crop season in each of the last four years. The upward pressure on the primary article prices has continued.

For the primary agricultural commodities, the WPI (Wholesale Price Index) went up by 5.4 per cent in the April-November 2006 period, as against the 2.2 per cent growth in the same months in 2005. However, the price rise was contributed largely by wheat and pulses indicating that output growth may not be uniformly poor in all commodities. GDP growth has been essentially growth of industry and services. The Index of Industrial Production (IIP) during April-November 2006 for manufacturing sector increased by 11.6 per cent over the same period in the previous year. This is despite the sharp fall in the growth rate of IIP in October 2006. Except for the consumer goods sector, the IIP for the other use-based industrial sectors, the annual growth rate for the period April-November 2006 has been higher than the annual growth rate for

the entire year of 2005-06. IIP growth for the entire industry during 2005-06 was 8.2 per cent. However, it should be noted that GDP from construction sector in the first half increased by a lower 9.7 per cent per year as compared to the annual growth rate in excess of 12 per cent in the same period of the previous year. The annual growth rate of production of cement and steel was slower for April-November 2006 as compared to the same period the previous year.

In the case of services, GDP of the sub-sector that includes communications increased by over 13.5 per cent on annual basis in the first half of 2006-07. GDP from the finance, real estate and business services has grown by 9 per cent year-on-year basis in the first half of 2006-07. The service sector, therefore, retained its momentum of growth at about 10 per cent per year for well over two years. The financial, transport and telecom sectors are expected to continue to be sources of medium term growth, particularly as they extend their reach to the currently under-served rural areas.

The output trends therefore suggest a continuation of momentum of growth in the short-term. However, the growth of agricultural output is not likely to be strong. There is some slowing down of growth in the construction sector and consumer goods output. The main sources of accelerated demand growth have been exports and investment. The rise in exports has been in tandem with the global trend.

However, there are some concerns. On the external trade front the stalled multilateral negotiations point to lowering of gains from liberalized trade regime worldwide. The growth of exports is not giving the kind of push to employment as may have been expected. Growth of exports is not taking place in all the sectors or to all destinations, raising the concern that attaining greater competitiveness in international markets is still a goal to be achieved.

Services sector in the Indian economy

A stabilized growth rate has been maintained by the Indian services sector since 1996-97, with the exception of 2000-01. Communication, transportation and hotels achieved the highest growth rate of 11 per cent in the first three quarters of 2005-06, with the business services, real estate, insurance and finance sectors following closed behind with 9.2 per cent. A growth rate of 9.6 per cent has been achieved by the overall services-a little more than the 9.3 per cent attained in the same period in 2004-05.

Numerous reasons can be attributed to this; however, the chief one would perhaps be the continuation of the reform process in spite of the change in the government. Along with this reform process, the outsourcing boom, the growth in urban consumption and the investment cycle upturn have contributed to the economic growth witnessed in recent years. The South East Asian economies that have grown largely due to their exports offer an absolute contrast to this. Communication, transportation, the hotel industry and trade have been the primary contributors (contributing about 60 per cent) behind the sector's remarkable growth. The rise in imports and exports too escalated the growth rate of the trade sector. An improvement was also seen in the activities of the hotel industry as a result of the progress in tourism, especially leisure and business travel. A robust growth was recorded by the transport sector as well, consequent on the increased production of vehicles for commercial use and heightened cell phone usage. The development of the insurance business through the private and public sectors, the rise in the revenue expenditure of the government and bank deposits and the extension in non-food credit, abetted the growth of the

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financial and insurance sectors. A huge potential for employment generation has been fostered by the advances in tourism and tourism-related services. The growth in IT-enabled services like knowledge and business process outsourcing is expected to continue. India has now become a key exporter of software professionals and services due to the increase in the number of English-speaking skilled manpower.

1.2.5 Classification of Services

The service sector covers a diverse range of activities. This diversity is apparent in the distinction between a complex global travel agency and a small, local plumbing service. It is important to identify the smaller service categories and subject them to analytical frameworks that are suitable for that particular service category. Services are usually classified on the basis of the type of activity they perform. Classifications such as hotels, shipping and banking have their basis in similar methods of production. But marketers do not find such simple classifications very useful. A wide range of activities having distinct marketing needs can be covered by a single production sector. For instance, five star hotels and small lodges come within the purview of the same sector, but have different marketing needs. Moreover, the majority of services usually combine numerous other services; for instance, retail stores provide banking services. Further, a specific production-based subsector might have certain marketing needs in common with some other unrelated subsector instead of the other subsectors within its own sector. Subsectors must be identified by the marketer in terms of similar marketing needs. For instance, providing hotel services and carrying out shipping operations are similar in that the process by which customers arrive at buying decisions and interact with a company's employees is similar. Reducing the number of categories has been complicated by the diversity of service offerings. The following are the bases for classifying services:

Marketable vs Unmarketable

Services are often categorized into marketable and unmarketable services. The latter refer to those services for which the distribution of benefits is considered desirable through non-market based mechanisms due to the prevalent economic and social environment of the time. For instance, a number of government services are offered with the aim of providing benefits to the public, without any charges. This happens because excluding individuals from benefiting from the service (e.g., footpath) is not possible. The benefits are external. This means that confining the distribution benefits only to those who have agreed to some mutual exchange relationship is impossible. A number of public services do not cause rivalry in consumption; in other words, one individual's indulgence in the service does not come in the way of another individuals' enjoyment of the same.

The other important service group that is considered unmarketable by a number of cultures includes domestic activities such as child rearing and cooking. Though some of these services are commonly marketed, some still consider that for the proper functioning of a family unit, these services should be internally provided.

Between these two extremes lies an entire array of services that are dynamically classified and that reflect the alterations in the technological, social, economic and political environment. Many have attempted to internalize the external benefits of public services in order to make them marketable. There are proposals for toll roads based on the marketing principles of selling relatively uncongested road space to motorists.

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Producer vs Consumer Services

Producer services are the services provided to businesses to enable them to produce services having economic benefits. Customer services are the services used by individuals for their own benefit or gratification. The consumption of consumer services does not result in any economic benefit (e.g., hairdresser).

A number of services are simultaneously provided to both the producer and consumer markets. Marketing needs should be adapted for meeting the distinctive requirements of each user group. For instance, the service provided by airlines is primarily similar for both the consumer and producer markets; however, their marketing programme may be such that better short notice availability and quality may be emphasized for the former and lower price may be emphasized for the latter.

The status of the service in product offering

Some elements of both goods and services are combined in the majority of products. It is possible to classify services on the basis of their role in the total offerings. There are three principal roles that services perform:

- Pure services exist in cases where the evidence of tangible goods is minute; for instance, a management consultancy service or insurance policy services. The minimal tangible element that does exist performs the role of supporting the intangible service; for example, the intangible service of transport is supported by the tangible aircraft.
- The role of the second group of services is the addition of value to tangible products. This occurs when the core tangible products of a manufacturer are supplemented by extra service benefits such as after sales services. Services may also be sold as discrete products that are purchased by customers for adding value their own goods (e.g., car insurance).
- Some value may be added to products by the third group of services simply by means of making them available in the market. Services such as delivering tangible goods from the point of production to the final destination required by the customer and providing some means of purchasing the tangible good through extension of credit (mortgage houses and transport) are facilitated by this group of services.

Tangible vs Intangible Services

A grey area exists between pure services at one extreme and pure goods at the other. Much of the intermediate greyness can be explained in terms of the extent to which the offer includes tangible elements. The degree to which intangibility is present in the service offers is derived primarily from the following three sources:

- Tangible evidence of service performance
- The physical environment in which the service is produced or consumed
- The inclusion of tangible goods in the service offer and the consumers' consumption of them

In cases where goods make up a significant element of the service offer, it becomes possible to apply to the service offer a number of practices having to do with

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the marketing of goods. For instance, both intangible services and tangible goods are represented by restaurants. It is possible to separate the production of goods from its consumption, and its perishability also assumes less significance than the perishability of an empty table. Customers are given an opportunity to judge the restaurant's quality on the basis of the visible evidence of the tangible components.

The physical environment in which the service encounter occurs and the goods that are exchanged comprise the tangible elements of a service offer. The staff's appearance, their cleanliness, the building's design, etc. are the significant tangible evidence that form the criteria for differentiating one service provider from another. Whereas certain services abound in such tangible uses, others such as insurance do not.

Evidence of the method of producing the service also provides tangibility. A number of services allow customers to be present during the production process. Customers see this tangible evidence before arriving at a conclusion about purchasing a service either by observing directly or by watching while it is performed for someone else or indirectly by means of hearing someone else's description of it. However, very few tangible cues are provided by certain services regarding the nature of the process of producing the service. Portfolio management services are not only produced without the customer being able to view the production process, but specifying the outcome of the service too may be extremely difficult.

Intangibility tends to increase the levels of uncertainty that consumers perceive in making purchase decisions. Marketers should compensate for this by focussing on the management of the tangible evidence of the service offer. Heightened uncertainty resulting from intangibility is often also addressed by developing strong brands to provide reassurance.

Extent of customer involvement

While it is possible to provide services such as personal care only with the full participation of customers, other service processes ask for little more than the initiation of the service by the customer. The customers are fully involved in the process of producing and delivering the service. For instance, when a hairdressing service is being performed, the interactive nature of the service requires that a set of questions related to the emerging style and length of the hair be answered by the client. For these customers, the quality of the process of producing the service is as important as the outcome. On the other hand, a customer listening to the radio does not have to be so involved.

The level of customer participation is usually lower in the case of services that are performed on the customers' possessions (car service) rather than directly on their body or mind. Here, the primary task that the customer performs is initiating the service and monitoring its performance. One way of monitoring a service would be to examine the physical tangible evidence of its performance; for instance, examining whether a piece of cloth has been stitched in the manner required by the customer. It is also possible to monitor the performance of a service by looking at the intangible evidence; for instance, checking the statement made on behalf of a client regarding an investment.

Because it is relatively more difficult to maintain consistent production standards for services, many service providers reduce the level of customer involvement in the

production process. This has been made possible by simplifying the service production process and by addressing distant communication by mail or telephone.

Degree of variability

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The following two dimensions of variability can be used for classifying services:

- The extent to which it is possible to deliberately vary services for meeting individual customer requirements.
- The extent to which the standards of production vary from the norms, in terms of both the production process and the outcome.

In the case of services that require customer to actively participate in the process of production, variability in producer standards assumes importance; for instance, a one-to-one situation such as hairdressing that involves the provision of labour-intensive personal services. Greater scope is allowed for quality control checks during the process of production by certain services. This ensures that a superior level of service is consistently provided. This holds good for machine-based services.

In the present day, the general tendency is to regard equipment-based services as having less variability than the services that involve a high level of personal interference in the process of production. A number of service firms adopt equipment-based methods of production for reducing variability and building a strong brand. Some of the most common steps taken by firms in this regard include computerizing the voice systems to replace human telephone operators and automating the banking service. At times, personal variability can be decreased by transferring some portion of the production process to the customer. An example of this would be a self servicing petrol pump that is independent of the variability of the serving staff.

Variability also has to do with the degree to which it is possible to deliberately customize a service for meeting individual customer requirements. Given that the creation and consumption of services is a simultaneous process and that the consumer takes part in the process of production, manufactured goods afford more opportunities for customization than services. The degree to which it is possible to customize a service depends on the methods of production that are use. Thus, little scope is offered for individual customization by services that are produced for numerous customers at the same time. For instance, individual customer requirements cannot be taken care of in the structured methods of production of a railway system, unlike the more flexible methods of taxi drivers.

The degree to which it is possible to customize services is a function of the decisions taken by the management about the level of authority they wish to delegate to the front line staff. Encounters with customers are often industrialized by service organizations. This means that standardized processes are followed during every encounter. Although the flexibility of the producers in meeting customer needs is reduced by industrialization, the consequence is a reduction in the outcome and process variability.

It is in services with low variability in both dimensions that brand building by service forms assumes great importance.

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Pattern of service delivery

Service delivery has the following two aspects:

(i) Whether a service is supplied as a series of discrete transactions or on a continuous basis

(ii) Whether a service is supplied within an ongoing buyer-seller relationship or casually

In terms of continuity of supply, the first set of services is bought only when there is a requirement for them as a series of discrete transactions. This is often the case for undifferentiated services carrying a low value, sand which can be impulsively purchased or without much conscious research (e.g., cafes, taxis, etc.). This also holds true for specialized services having a high value that are bough only when they are needed (e.g., wedding services). There are other services where supplying the services on a casual basis is an impractical idea. This is usually the case for services whose methods of production come in the way of offering the service only when it is required (e.g., telephone lines cannot be provided only when they are required), or when the there is a continuous need for the benefits provided by the service (e.g., insurance policies).

It is common to associate continuous service supply with a buyer-seller relationship. This happens when the service is produced/consumed over a long period of time (medical treatment), when the benefits can be enjoyed only at the end of a long period (investments), or when a high degree of perceived risk is encountered by the purchaser. It is possible to diminish the transaction cost of searching for and ordering services afresh every time they are required (annual maintenance) by opting for supply through an ongoing relationship instead of discrete transactions.

At times, supplying the essential elements of a particular service through an ongoing relationship, but supplying the supplementary service benefits only when required makes sense.

Attempts are made by service marketers towards moving customers into categories where the provision of services is continuous and not discrete and as part of ongoing relationships instead of casually. It is possible to achieve the former if incentives are offered for purchasing a continuous stream of services benefits (e.g., attractively priced annual travel plan, seasonal tickets, etc.).

Pattern of demand

Only a few services have a stable demand pattern over a period of time. A number of them display considerable variations, in daily (bars), weekly (weekend rush), seasonal or cyclic terms. The pattern of demand may also be unpredictable. The perishability of the services can pose serious problems for services facing a very uneven pattern of demand.

Significance of the service to the purchaser

There are certain services that frequently purchased, carry a low value, are rapidly consumed and are likely to be bought impulsively without any pre-purchase activities. Only a minor portion of the buyer’s total expenses may be represented by such services

and matched by the goods marketer's description of fast moving consumer goods. On the other hand, long lasing services are not bought very frequently, and if at all they are bought, it takes longer and requires the participation of more people to arrive at a decision (e.g., packaged tours).

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Numerous measures have been identified in order to classify services; however, in practical terms, it is necessary to simultaneously classify services by a number of criteria in order to facilitate the identification of groups of similar types of services.

1.2.6 Essentials of Services Marketing

Services marketing is one of the essential parts of marketing and can be segregated into two main fields of goods marketing – marketing of durables, fast moving consumer goods (FMCG) and services marketing. Services marketing includes both business to business (B2B) and business to consumer (B2C) services. Services marketing encompasses the marketing of services like professional services, car rental services, financial services, air travel services, telecommunication services and all types of hospitality services. The range of marketing of services is decided on the expectation of it being effective in conveying their message and ideas to the consumers and key prospects that are the receptives.

Services are time-based and achieve the coveted results for the recipients or consumers and the assets or objects towards which a purchaser is responsible. They are the economic activities offered from the service-provider to the service-buyer. Service customers, in return for their effort, money and time expect good value from their access to the goods, professional skills, networks, facilities, systems and labour. However, no claims are made by the customers on any of the physical elements involved in the service.

Services marketing is a new concept in marketing and had emerged as a discipline around the end of the 20th century. This concept had first come to light during the 1980s, when a debate had arisen whether services marketing was different from that of product marketing and should be classified as an independent discipline. Earlier, services were regarded as a mere aid towards the marketing and production of products and did not have a special relevance of its own. The marketing of services is intangible in nature. Services are consumed as soon as they are produced and cannot be collected, stored, resold or saved after their use by a consumer. Each service offered by a service provider is unique and the same service cannot be exacted by the provider.

1.2.7 Service vs Product

Products and services are two closely aligned concepts, and, in fact, most products have an element of service in them. For example, a car buyer now buys a comprehensive bundle of service benefits, in addition to the tangible components of the car. However, there is a distinct difference between them and it is important to establish some working definitions. One way to think of them is from the clients' point of view. When a client asks "what can you make for me?" they are asking about products; when a client asks "what can you do for me?" they are asking about services. While a product is something that can be measured and counted, a service is less concrete and is the result of the application of skills and expertise towards an identified need. A product is something you can point at, whereas a service, as *The Economist* defines it, is any activity "you

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can't drop on your foot" although this definition doesn't hold up when the products are digital in form – weightless objects that have no mass or material definition aside from the physical media on which they exist.

Products

Products are tangible and discernible items that the organization produces, including digital file-based output. Examples of products from the Digitization Services Branch:

- digital files sent to a network storage system (NAS/SAN)
- new prints of motion picture film elements
- prints for exhibit purposes
- reference copies on DVD/CDs for the Reading Rooms or other clients

Services

A service is the production of an essentially intangible benefit, either in its own right or as a significant element of a tangible product, which through some form of exchange, satisfies an identified need. Sometimes services are difficult to identify because they are closely associated with a good; such as the combination of a diagnosis with the administration of a medicine. Examples of services from the Digitization Services Branch:

- consulting with clients on appropriate products for specific purposes
- providing advice on risk assessment and priority setting
- working on standards committees
- conducting training and other educational outreach

Table 1.1 *Differences between Products and Services*

Products	Services
They are tangible	They are intangible.
They can be bought.	They can be felt.
They are non-perishable.	They are perishable.
They are non-ephemeral.	They are ephemeral.
They are countable.	They cannot be counted.
They can be owned.	They cannot be owned.

1.3 SERVICES MARKET SEGMENTATION: MEANING, PURPOSE, BASES AND PROCESSES

Segmenting a market entails dividing a market among smaller groups of consumers. Since not all consumers desire the same product, a separate value addition should be made for each group of consumers. This is a successful way of breaking into existing markets. The purchase behaviour of consumers is the best way to determine segments. Thereafter, a company has to study whether it will be profitable for it to enter that particular segment and if it has the capability to do so.

Segmentation is the process of dividing the market of a product or service in smaller groups of customers. The customers in one group should (i) buy the product for the same purpose, or (ii) use the product in the same way, or (iii) buy the product

Market Segmenting: Segmenting a market entails dividing a market among smaller groups of consumers

Check Your Progress

1. List the characteristics of services.
2. What are the bases for classifying services?
3. What services does the marketing of services encompass?

in the same way. But customers in one segment should be different from customers of any other segment in one or more of the above parameters. Segmentation of a market makes sense only when the company has to design a separate value proposition for each segment.

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Sportspersons buy Nike shoes to enhance their performance, whereas the same shoes are used as casual shoes by some other people. People drive their cars in different ways. Some are rough drivers, while others take it easy on the road. The same grocery items are bought both at neighbourhood stores and at upscale stores.

1.3.1 Purpose of Segmentation

Different product and service offerings must be made to the diverse groups in a market. Segmentation involves identification of groups of individuals or organizations that have significant implications for determination of a marketing strategy. Segmentation is dividing a diverse market into a number of smaller, similar sub-markets. The objective is to identify groups of customers with similar requirements so that they can be served effectively while being of a sufficient size for the product to be supplied efficiently. It is the basis by which marketers understand their markets and develop strategies for serving chosen customers.

Target market selection

Segmentation provides the basis for selection of target markets. A target market is a chosen segment which a company has decided to serve. Customers in the target market have similar characteristics and a single marketing mix can be used to serve them. Creative segmentation may result in identification of new segments that are not being served presently.

Tailored marketing mix

Segmentation allows grouping of customers based on similarities (similar benefits). Marketers are able to understand in depth the requirements of segments and tailor a marketing mix that meets their needs. Segmentation promotes the idea of customer satisfaction by viewing markets as diverse set of needs which must be understood and met by suppliers.

Differentiation

By breaking a market into its constituent segments, a company may differentiate its offerings between segments, and within each segment it can differentiate its offering from competition. By creating a differential advantage over the competition, a company gives the customer a reason to buy from them rather than from competitors.

Opportunities and threats

Markets are rarely static. As customers become more affluent, they seek new experiences and develop new values, and new segments emerge. The company may spot a new underserved market segment and meet its needs better than competition. Similarly the neglect of a market segment can pose a threat if competition uses it as a gateway to market entry. Market segments may need to be protected by existing competitors even though it may not be profitable to serve them. They do this because

they fear that the market segments they vacate might be used by new entrants to establish a foothold in the market.

1.3.2 Process of Market Segmentation: Target Marketing

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Selection of a Target Market

A target market is a group of people or organizations for which a company designs, implements, and maintains a marketing mix intended to meet the needs of that group, resulting in mutually beneficial and satisfying exchanges. Selection of target markets is a three step process.

(i) The requirements and characteristics of the individuals that comprise the market are understood. Marketing research helps in this process.

(ii) Customers are grouped according to these requirements and characteristics into segments. A given market can be segmented in various segments. A given market can also be segmented in various ways depending on the choice criteria. There is no single, prescribed way of segmenting a market. A car market can be broken down according to the type of buyer (individual/organization), major benefits sought in the car (functionality/status), or by family size (empty nester/family with children). There are no rules which lay down how a market should be segmented. The only limitation to the ways in which a market can be segmented is the marketer's ingenuity.

The selection of the criteria on which the market will be segmented is the most important decision that the company will have to make. The criteria should be able bring out meaningful differences among customers which the company can exploit by designing a unique value proposition. Using a new criteria or using a combination of well-known criteria in a novel way may give fresh insights into a market. Marketers should visualize markets from a fresh perspective. They may be able to locate attractive, under-exploited market segments.

(iii) Finally, one or more markets are chosen for targeting or serving. Marketing mix is developed by keeping in mind what the customers value. The aim is to design a mix which is distinctive from that which the competition is offering.

Target Market Strategies

When selecting their target markets, companies have to make a choice of whether they are going to be focused on one or few segments or they are going to cater to the mass market. The choice that companies make at this stage will determine their marketing mix and positioning plank.

Undifferentiated targeting or mass marketing

A company uses an undifferentiated targeting strategy by adopting a philosophy of mass-market. It sees the market as one big entity without any individual segments. One marketing mix is used by the company for the whole market. The company functions on the assumption that a common marketing mix would be enough to meet the needs of individual customers, as their needs are similar. At this stage, there is no competition because the need for using marketing mixes to meet the requirements of various market segments is not felt by the company. Since there is no alternate offering,

customers have to buy the pioneer's product. Ford's Model T is a classical example of an undifferentiated targeting strategy. Companies marketing commodity products like sugar also follow this strategy.

Companies following undifferentiated targeting strategies save on production and marketing costs. Since only one product is produced, the company achieves economies of mass production. Marketing costs are also lower because only one product has to be promoted and there is a single channel of distribution.

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Fig. 1.1

But undifferentiated targeting strategy is hardly ever a well considered strategy. Companies adopting this strategy have either been blissfully ignorant about differences among customers or have been arrogant enough to believe that their product will live up to the expectations of all customers, till focused competitors invade the market with more appropriate products for different segments. Therefore companies following this strategy will be susceptible to incursions from competitors who design their marketing mixes specifically for smaller segments.

Concentrated targeting

A company selects one segment to serve. It understands the needs, and motives of the segment's customers and designs a specialized marketing mix. Companies have realized that instead of spreading resources over many different segments, it is more profitable to concentrate resources and meet the requirements of a narrowly defined market segment. Take the example of Starbucks which owes its success to exclusive focus on those customers who wished to buy gourmet coffee products.

Companies following concentrated targeting strategies are obviously putting all their eggs in one basket. If their chosen segment were to become unprofitable or shrink in size, the companies will be in problem. Such companies also face problems when they want to move to some other segments, especially when they have been serving a segment for a long time. They become so strongly associated with serving a segment with a particular type of product or service, that the customers of other segments find it very difficult to associate with them. They believe that the company can serve only that particular segment. Companies which start with the strategy of concentrated targeting but also wish to cater to more segments should start making forays into other segments early and periodically. The aim is to avoid the reputation of serving a particular segment exclusively. The company's association with any particular segment should not be so strong that customers are unable to accept the fact that the company can do other things also.

From the car makers' perspective, Mercedes offers premium cars for the upper segment of the market only. It does not offer cars for the middle and lower segments. But Mercedes segments the premium segment for its own purpose and offers different cars for its different premium segments.

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Niche marketing: 'A niche market is a focused portion of a larger segment that is generally not being addressed by mainstream providers'

Niche marketing: 'A niche market is a focused portion of a larger segment that is generally not being addressed by mainstream providers'. There are several advantages of focusing on a niche. They are as follows:

- The number of customers is less, and there is usually non-existent competition, particularly from big firms.
- There is not much pricing pressure, as niche marketers charge higher prices since they are able to cater to the unique combination of benefits sought after by customers.
- Generally, there is a higher than average customer loyalty as the niche marketer knows precisely about customer requirements and serves them.

A niche market is usually a smaller group of customers who seek a unique combination of benefits. This group is usually small and therefore financially unattractive for a mass marketer.

Local marketing: Local marketing concerns marketing programmes tailored to the needs of local customers groups like communities, neighborhoods, residential societies and industrial areas

Local marketing: Local marketing concerns marketing programmes tailored to the needs of local customers groups like communities, neighborhoods, residential societies and industrial areas. For example, a grocery store located in the Bengali majority neighborhood of Chittaranjan Park in Delhi keeps products which are tailored to the Bengali palate. These stores also sponsor stalls during the Durga Puja festival.

Multi-segment targeting

A company following a multi-segment targeting strategy serves two or more than two segments that are well defined and also creates a marketing mix to cater to the needs of each segment. Separate brands are developed to serve each of the segments by most companies following this strategy. This target market strategy is the most sought after because it has the potential to generate sales volume, more profits, more manufacturing and marketing economies of scale as well as a bigger market share. However, this strategy also entails a lot more in terms of promotion, inventory, product design, production, marketing research and management costs. Cannibalization is another potential cost which occurs when the sales of a new product affect the sales of the existing products of a firm. Therefore, it is essential to compare the advantages and costs of multi-segment targeting and concentrated and undifferentiated targeting, before using this strategy.

The car market is most clearly segmented. There are segments for small cars, luxury cars, sports utility vehicles, etc. Most car makers like General Motors, Ford, Toyota, Honda, and others offer cars for all the segments. Though Toyota entered the US market with small cars, it eventually chose to operate in most of the segments.

1.3.3 Segmenting Consumer Markets

Markets can be segmented in many ways. Segmentation variables are the criteria that are used for dividing a market into segments. The chosen criteria should be good predictors of differences in buyer behaviour. There are three broad groups of consumer segmentation criteria: Behavioural, Psychographic and Profile variables.

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- Behavioural variables such as benefits sought from the product, and buying patterns such as frequency and volume of purchase may be considered the fundamental basis.
- Psychographic variables are used when purchasing behaviour correlates with the personality or lifestyle of consumers. Consumers with different personalities or lifestyles have varying product preferences and may respond differently to marketing mix offerings.
- Profiling is not essentially a criteria for segmentation. After finding these differences, marketers need to describe the people who exhibit them. Profile variables such as socio-economic group or geographic locations are valuable in describing the customers of the identified segment. For instance, a marketer may want to find out whether there are groups of people who value low calories in soft drinks. After tracing such people the marketer attempts to profile them in terms of their age, socio-economic groupings. The objective of profiling is to identify and locate the customers so that they can be approached by marketers.

But in practice segmentation may not follow this logical sequence. Often profile variables will be identified first and then the segments so described will be examined to see if they show different behavioural responses. For instance, different age or income groups may be examined to see if they show different attitudes and requirements.

1. Behavioural Segmentation

Benefits sought

People may seek different benefits from a product. Benefits sought in the fruit drink market are extra energy, vitamins, being natural, low calories, low price. There are brands targeting each segment. Benefit segmentation provides an understanding on why people buy in a market and aids in identification of opportunities, as some of the benefits that customers seek may not be provided by the existing companies.

Benefit segmentation is fundamental because the objective of marketing is to provide customers with benefits which they value. Profile analysis can then be performed to identify types of people (age, gender) in each benefit segment so that targeting becomes easier.

This is the most fundamental form of segmentation in marketing, which is used by almost every company in practice. For example, toothpaste brands are sold on the basis of the benefits offered by them such as whitening of teeth, prevention of cavities or fresh breath. Similarly, cosmetics are sold on the basis of benefits provided such as wrinkle reduction, prevention of aging, etc.

Purchase occasion

Products like tires may be purchased as a result of an emergency or as a routine unpressurized buy. Price sensitivity is likely to be lower when products are bought in emergency situations. Some products may be bought as gifts or self purchases. Gift markets are concentrated during a festival period, while the advertising budget for these will be concentrated in the pre-festival period. Package designs may differ during this period, and special offers may also be made.

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Fig. 1.2 Consumers Can Be Brand Conscious

Apparel brands are segmented on the basis of the occasion of usage. There are different collections for weddings, formal occasions, parties and for regular wear.

Purchase behaviour

Differences in purchase behaviour can be based on the time of purchase relative to the launch of the product or on patterns of purchase. When a new product is launched, a key task is to identify the innovator segment of the market. These people allow communication to be specifically targeted at them. Innovators are more likely to be willing to buy products soon after the launch. Other segments of the market may need more time to assess the benefits and delay purchase until after the innovators have taken the early risks of purchase.

New products launched by companies are generally aimed at the most enthusiastic customers. For instance, the new age smart phones are targeted at tech savvy, upper class, busy executives.

Brand loyalty

The degree of brand loyalty can be the basis for segmenting customers. Some buyers are totally brand loyal, buying only one brand in a product group. Most buyers switch brands. Some may buy one particular brand on most occasions but also buy two or three other brands. Others might show no loyalty to any individual brand but switch brands on the basis of special offers to buy, because they are variety seekers who look to buy a different brand each time. By profiling the characteristics of each group a company can target each segment accordingly. By knowing the type of person (for instance, by age, socio-economic group) who is brand loyal, a company can channel persuasive appeals to defend this segment. By knowing the characteristics and shopping habits of offer seekers, sales promotions can be correctly targeted. In consumer durables market, customers can be divided into first time buyers, replacement buyers and switchers from other brands.

Retail stores would be the best example of loyalty based segmentation. Several retail stores have initiated the concept of loyalty cards. These cards give additional discounts and offers to regular customers. Airlines also indulge in loyalty based segmentation, wherein frequent flyer miles and other such offers are given to loyal customers.

Usage

Consumers can be segmented on the basis of heavy users, light users and non-users of a product category. Profiling of heavy users allows this group to receive most marketing

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attention because creating brand loyalty among these people will pay heavy dividends. Attacking the heavy user segment (20% customers consuming 80% of the product) can have drawbacks if all competitors are following this strategy. Analyzing the light and non-user category provides insights that permit development of appeals that are not mimicked by competition as they will concentrate on the heavy users.

For instance, not all loyal customers are heavy users of a product. Not all customers who are loyal to a particular retail store would spend as much money. So a store can segment customers on the basis of loyalty and spend, instead of loyalty alone. Nokia has also segmented its market on the basis of usage of a mobile by a customer. For instance, its E-series is for the busy business executive who always wants to stay connected and updated, while the N-series is for the heavy music listener and tech geek.

Perception and beliefs

Perceptions and beliefs are strongly linked to behaviour. Consumers are grouped by identifying these people who view the products in a market in a similar way (perceptual segmentation) and have similar beliefs (belief segmentation). For instance, when it was launched, a product such as iPOD by Apple made more sense to consumers who were passionate about music and also held extremely positive perceptions about the use of technology.

In the early 1990s several Indian consumers held negative perceptions about microwaves. It was believed that Indian food rich in oil and spices could not be cooked in microwaves, and the waves emanating inside were harmful to health. Another segment that was more open to adapting microwaves consisted of those consumers who were well aware about the functioning of the microwave, and were health conscious. They also sought the convenience of cooking faster, and cooking other types of cuisines. For these purposes, a microwave was found to be suitable by them. Therefore, marketers initially focused on the second segment.

2. Psychographic Segmentation

Lifestyle

A company groups people according to their way of living as reflected in their activities, interests and opinions. The company identifies groups of people with similar patterns of living. The question that arises in this type of segmentation is whether general lifestyle patterns are predictive of purchasing behaviour in specific markets. The company will relate a brand to a particular lifestyle.



Fig. 1.3

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Several ready-to-cook and fast food brands treat dual income families as their primary target group, based on their busy lifestyle, and the fact that the lady of the house does not have the time to cook food. Even appliance and consumer durable brands treat this target segment as an important one, as this group's disposable income is high.

Personality

In some product categories there is relationship between brand personality and the personality of the buyer. Buyer and brand personalities are likely to match where brand choice is a direct manifestation of personal values, but for most FMCG goods, people buy a repertoire of goods. Personality and lifestyle segmentation will work best when brand choice is a reflection of self expression, i.e., the brand becomes a badge which makes public an aspect of personality. Successful personality based segmentation is found in categories such as cosmetics, alcoholic drinks and cigarettes.

Automobile brands segment their markers on the basis of the income of the customer and his personality. Research reveals that customers consider the car to be an extension of their individual personalities. Therefore, automobile brands use the car to convey the desired personality of the individual such as adventurous, caring, and tough.

3. Profile Segmentation

Even if behaviour and/or psychographic segmentation has distinguished between buyer preferences, there is need to analyse the resulting segments in terms of profile variables such as age and socio-economic groups. The segments emerging from behavioural and psychographic segmentation will have to be profiled in terms of age, occupation, socio-economic status, place of residence, gender etc. Profiling will help companies in identifying the segments and focusing their attention on them.



Fig. 1.4

Demographic variables

(a) **Age:** Age is used to segment many consumer markets, like food and clothing.

(b) **Gender:** Differing tastes and customs between men and women are reflected in specialist products aimed at these market segments.

(c) **Lifecycle:** Disposable income and purchase requirement vary according to lifecycle stage (young singles versus married). Young couples without children may be a prime target for consumer durables. The use of lifecycle analysis gives a better precision in segmenting markets than age because family responsibilities and presence of children have a greater bearing on what people buy than age.

(d) Socio-economic variables: Social class as a predictor of buyer behaviour has been open to question. Many people who hold similar occupations have dissimilar lifestyles and purchasing patterns. Educational qualification and income are also used as variables for segmentation.

(e) Geographic variables: A marketer can use pure geographic segmentation or a hybrid of geographic and demographic variables to segment the market. Geographic segmentation is useful when there are geographic locational differences in consumption patterns and preferences. Variations in food preferences may form the basis of geographic segmentation. Both the geographic and demographic variables help a marketer to point to their segments more precisely.

1.3.4 Segmenting Organizational Markets

Organizational markets can be segmented on the basis of various factors, that can be broadly classified into macrosegmentation and microsegmentation.

Macrosegmentation focuses on characteristics of the buying organization such as company size, industry and geographic location.

Microsegmentation is the detailed knowledge of the internal functioning of a company. It concerns the characteristics of decision-making such as choice criteria, decision-making unit structure, decision-making process, buy class, purchasing organization and organizational innovativeness.

First macro and then micro basis of segmentation are employed while segmenting organizational markets.

Macrosegmentation

Organizational size

Large organizations have greater order potential, a more formalized buying process, increased specialization of functions and special needs (more services and quantity discounts). They are important target-market segments and require tailored marketing mix strategies. Dedicated sales teams are used to service important industrial accounts. List price should take into account the inevitable demand for volume discounts. Sales team should be well versed in the art of negotiation.

Integrated steel plants serve larger industrial buyers whereas mini steel plants serve smaller retailers who sell them to final consumers.

Industry

Different industries have unique requirements of products. Computer suppliers can market their product to various sectors such as banking, manufacturing, healthcare, and education, each of which has unique needs in terms of software program, price and purchasing practice. By understanding each industry's needs in depth, a more effective marketing mix can be designed.

An integrated steel plant may choose to serve only the automobile industry instead of trying to cater to all industries which require steel as a raw material.

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Geographical segmentation

There are regional variations in purchasing practice and needs.

An integrated steel plant may choose to serve the automobile plants located in India instead of serving automobile plants all over the world.

Microsegmentation

Choice criteria

One customer may rate price as the key choice criteria, another may favour productivity of the equipment being sold and a third may want more services. Marketing strategies need to be adapted to cater to each segment's needs. Three different marketing mixes would be needed to cover the three segments and salespersons would have to stress different benefits when talking to customers in each segment. Key choice criteria is a powerful predictor of buyer behaviour.

An automobile plant is keen to maintain low inventory. Hence, it expects its component suppliers to respect its production schedules.

Decision-making unit structure

Members of the DMU and its size vary among firms. DMU consists of all people in a buying organization who have an effect on supplier choice. In one segment, top management may make the decision, in another engineers may play a role, and in yet another purchasers may play a role. The selling approach that a company will adopt will depend heavily on the priorities of the members of the DMU.

In a steel plant, the purchaser alone can make a buying decision. In contrast, in an automobile plant, the purchasing organization will include members from product design, manufacturing and process design.

Decision-making process

The decision-making process can take a long time or be relatively short in duration depending on the size of the DMU. Large DMUs will take a longer time. Where the decision time is long, high levels of marketing expenditure are needed with considerable effort being placed on personal selling. Much less effort is needed when the buying process is short and where, say, only the purchaser is involved.

In an automobile plant, members of a functional department can order their requirements directly from designated suppliers. In contrast, in a smaller organization that manufactures cans, all purchases have to be routed through the purchasing department.

Buy class

Organizational purchases are categorized into straight rebuy, modified rebuy and new task. Buy class affects the length of decision making process, complexity of DMU and number of choice criteria which are used in supplier selection. It can therefore be used as a predictor of different forms of buyer behaviour.

When a company is buying an item for the first time, it will prefer suppliers who will have the patience to educate the buyer company. It will also be suspicious of sellers as it does not really know the credibility of the sellers. The sellers will have to demonstrate a lot of patience as the buyer will evaluate a lot of options and get into a lot of consultation before settling on a supplier (New task). When the company is

already buying the item but only wants to alter the specifications of the product or the conditions of purchase, it will expect the incumbent supplier to make the required changes and retain the order. New suppliers can make a pitch but they have to compete hard against the incumbent supplier because of its proximity to the buyer (Modified rebuy). The incumbent supplier should get the order when the buyer continues to buy the same item in the same way. New suppliers can make a pitch but they have to prove that they are decisively better than the incumbent (Straight rebuy).

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In case of MRO materials, functional departments can order their requirements directly from suppliers, but a supplier of a new component has to be approved by the purchasing committee comprising purchasers, process designers, product designers and production personnel.

Purchasing organization

Decentralized versus centralized purchasing is an important variable due to its influence on the purchase decision. Centralized purchasing is associated with purchasing specialists who become experts in buying a product or range of products. They are more familiar with cost factors, and strengths and weaknesses of suppliers than decentralized generalists. The opportunity for volume buying means that their power base to demand price concessions from suppliers is enhanced. In centralized purchasing systems, purchasing specialists have greater power within the DMU with respect to technical people like engineers.

In decentralized purchasing, users and technical personnel have a lot of influence and it is important to understand their requirements. A purchaser may ultimately negotiate the price and place the order, but the choice of the user and technical person is respected by the purchaser.

A centralized purchasing segment could be served by a national account team, whereas decentralized purchasing segment might be covered by territory representatives.

A retail chain will buy branded products for all its stores, but may allow individual stores to buy certain items locally.

Organizational innovativeness

Marketers need to identify the specific characteristics of the innovator segment since these are companies that should be targeted first when new products are launched. Follower firms buy the product but only after innovators have approved it.

A company that manufactures diagnostic medical equipment would sell its latest equipments to a leading tertiary healthcare centre in a city, who has a history of buying latest equipments, rather than to smaller hospitals who tend to follow the leader.

Check Your Progress

4. Define a 'niche market'.
5. Name the target market strategies adopted by companies for marketing of services.
6. Which are the three broad groups of consumer segmentation criteria?
7. What is the basis of formulation of the mission statement for a company?

1.4 VISION AND MISSION IN SERVICE MARKETING

1.4.1 Vision of Service Marketing

Like all other business organizations, service organizations generally describe their goals and intentions in a broad and general manner. This description roughly expresses what the company is pursuing or what it wants to become or what it wants to achieve. It gives a view of an organization's future direction and course of business activity. It is often communicated through the mission statement. Above all, vision is a powerful

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motivator and keeps an organization moving towards the intended direction. Although, the vision and the mission of a company may seem overlapping or similar to a layman, the fact is that the vision of a company is not always as specific as the mission statement. Usually, the vision is impersonal and not even written down.

Let us look at the company vision of the Zydus Cadila Group. Before we understand the vision of the Group, here is the profile of the Company in brief. The main activity of the group —Cadila Healthcare Ltd, founded in 1952— is to come up with health care solutions. They produce active pharmaceutical ingredients, cosmeceuticals, herbal products, vaccines, etc. The group has plants in Navi Mumbai, Patalganga, Vadodara, Ahmedabad, Andheri, Goa and Ankleshwar. In 1955, the group came to be known as the Zydus Cadila Group following restructuring. The Zydus Group is not only aiming to be a global player but is also pursuing an ambition of becoming one of the top three healthcare companies in India. The Group has already made its presence felt in the markets of the US, EU, Brazil, South Africa and Algeria.

Their vision is stated as follows:

> 'Zydus shall be a leading healthcare provider with a robust product pipeline and sales of over $1 billion by 2010. We shall achieve sales of over $3 billion by 2015 and be a research-based pharmaceutical company by 2020.'

1.4.2 Mission of Services Marketing

The mission of a service company is very important for its successful performance not only for the short term, but also in the long run. The mission of a company is not vague as the vision and is designed to ensure that those belonging to the company work together with a uniform purpose. It is slightly more specific and sets apart one company from the other companies in the same area of business. The mission identifies the scope of the company's operations; describes the company's product, market and technological areas of thrust; and reflects the values and priorities of its strategic decision makers. The mission of a business looks towards an endless future as if the firm were immortal. The mission statement is formulated after thinking a lot and with great caution keeping in mind the basic product of the company, the market it operates in, the technology used, the image of the company as well as its goals and philosophy. However, despite being more specific than the vision, the mission of the company may not provide specific directions or channels for action. The mission statement of a company often reflects social responsibility and addresses issues that concern not just its own employees, customers and shareholders but the local community and the society in general. While formulating the mission statement, the ethics and norms that are to be followed with respect to the general public and the industry as a whole, are also kept in mind.

1.5 SERVICE MARKETING PLANNING PROCESS

The nature of services makes its marketing inseparable from its operations. The way services are produced has an indelible influence on their saleability. Service facilities have to be managed in a way that promotes customer care when the customer is availing the service and also simultaneously improves the efficiency and effectiveness of service provision.

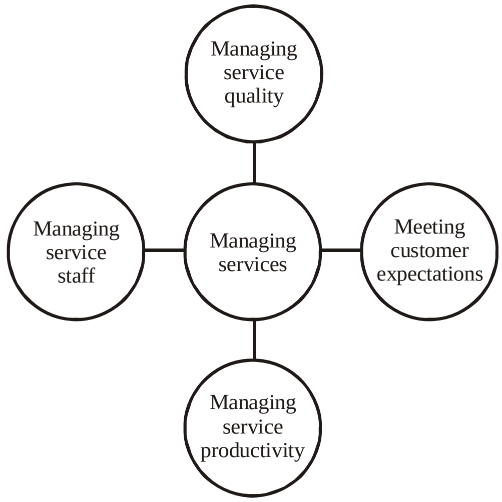


Fig. 1.5 Managing Services

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1.5.1 Managing Service Quality

Companies that are rated higher on service quality perform better in terms of market share growth. But high standards of service quality remains elusive. There is a big gap between the expectations of the customers and the level of the service they get. It is important to understand why this gap persists inspite of the dominance of the service economy for some time now. This gap suggests that inspite of the best companies and people involved in the provision of services, the quality of services is nowhere as good as those of products.

There are real barriers while matching expected and perceived service levels of customers and these have to be overcome if customers have to feel delighted with the services they receive.

Does not understand customer requirements

Misconception barriers arise when companies misunderstand customer expectations. When a service provider does not carry out market research to understand customers' choice criteria, he misinterprets the important service attributes that customers use when evaluating a service and the way in which customers use these attributes in evaluation. For example, a car service centre may believe that customers want their car to be serviced fast, whereas customers may want quality of service to be improved, so that they are not stuck on roads with broken cars.

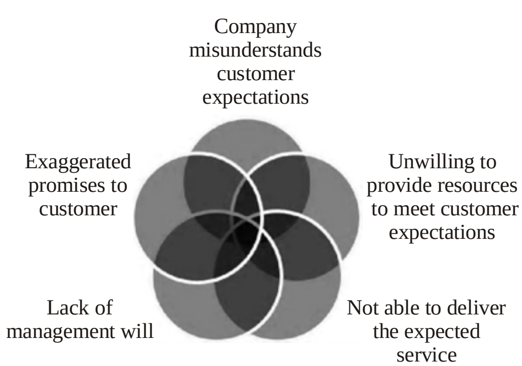


Fig. 1.6 Barriers in Matching Expected and Perceived Service Levels of Customers

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But there are genuine difficulties in understanding what customers actually want from the service encounter. Service attributes are not well defined and they are not standardized. The variability of attributes is very high. A good ambience may mean a theme-based architecture, centrally cooled atmosphere, best carpets, expensive paintings on the wall, and rare plants at the premise. But for some, a good ambience may also mean a reasonably decent place where a person can have his meals peacefully. Because customers encounter such variability in service components, they have not been able to fix limited levels or grades in services as they have been able to with products. So luxury in automobiles has limited and definite levels, but luxury in a hotel or a holiday resort has no definite or limited levels. It runs in continuum, and customers can demand their own level of luxury because they know that it is being offered somewhere else.

Secondly, when customers buy a product, they commit themselves to a particular level of comfort and benefits, at least for some time, and so customers can be understood reasonably well by the products that they buy. But a customer may dine at a five star restaurant at one occasion and at a very ordinary joint at some other time. He does not make commitments to any defined level of service and his buying is based on the circumstances or the occasion. It is difficult to make inferences about customer choice and profile his behaviour on this basis. All this makes the behaviour of customers towards services very unpredictable.

No resources

A service provider understands customer expectations of a certain level of service, but he is unwilling to provide resources to provide that level of service. This may happen because the service provider is focused on reducing costs or improving productivity, or simply because the service provider believes that customers do not really mind small shortfalls in the level of service they are getting.

Unwillingness to spend on improvement of service encounters is a legacy from the days when it was believed that big investments are not needed in running a service business and all that is needed are a few hands. But improvement in services requires investment in technology, and in hiring and training talented employees. In knowledge-based services like consultancy, medical sciences and education, investment has to be made in acquiring latest technologies and in upgrading skills and knowledge of the service professionals.

Bad delivery

The company is not able to deliver the expected service. It understands customer expectations of a certain level of service, and is also willing to expend resources to provide that level of service, but its fails to select, train and reward its employees appropriately, resulting in poor or inconsistent service delivery by discontented employees.

Beyond educational and technical qualifications, a service professional has to have the ability to empathize, be able to put aside his personal worries when he is with a customer and should withstand personal discomforts in serving customers. It is difficult to get people with such attributes. So hiring can be a frustrating experience, but companies that want to excel in service delivery will have to wait to get the right people. It is important that a service organization is a good place to work at, so that large number of people are attracted to it and its chances of getting good people improves.

Management's will

A management eager to improve quality is able to do it. It has been seen that a company's determination to improve the quality of its services is the most important factor in its quest to bridge the gap between customer expectations and actual service delivery. A determined company will find the right resources, equipment and people to satisfy its customers.

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Exaggerated expectations

Exaggerated promises may become a problem. Advertisements and marketing communication exercises that build customer expectations to a level that cannot be fulfilled, may leave the customer dissatisfied with the service even when receiving a good service. The company has to be careful in hyping its good services. The correct level of promotion is difficult to define but still it is important to achieve just the right levels and intensity of promotion. If the services are not promoted well enough, customer expectations are not raised to adequate levels. Customers will buy services from a provider only when they expect good services from it, and so adequate promotion should be done to raise expectation of customers. But when the service is excessively hyped, customer expectations are raised at exaggerated levels and even when the service is reasonably good, they are not satisfied because they expected much higher level of service. Therefore the promotion should be intense to adequately raise expectations among customers to try the service provider, and the service provider should be able to fulfil those expectations. It is a balance very few companies know how to achieve.

Meeting customer expectations

It is important to understand and meet customer expectations. A company should have a clear picture of the criteria that customers will use to evaluate whether his expectations have been met or not. The company should understand that consumers of services value not only the outcome of the service encounter but also the experience of taking part in it. Evaluation of a face massage depends on not only the quality of the massage but also on the experience of having it done. Customers use the following criteria when evaluating outcome and experience of service encounters:

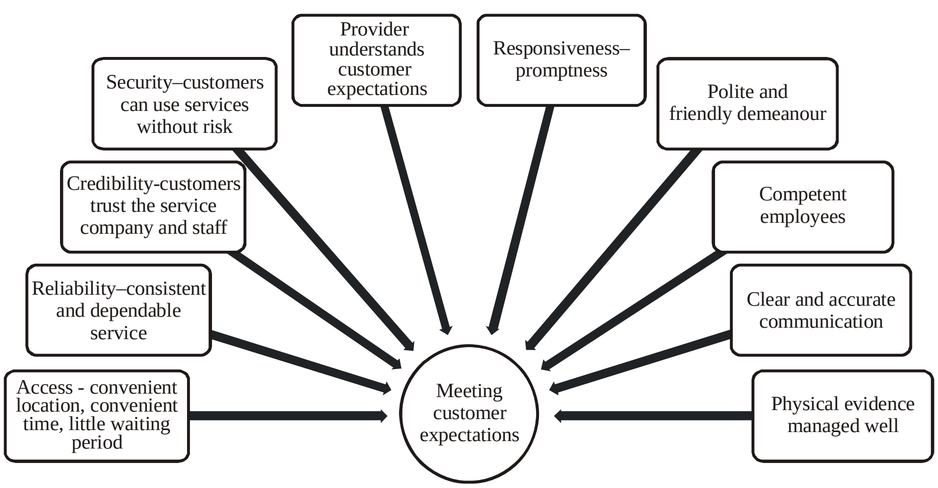


Fig. 1.7 *Meeting Customer Expectations*

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1. Access

Is the service provider able to provide the service at convenient locations and at convenient times, with little or no waiting period in availing the service? A customer can travel to distant locations to get a service if the service is urgent, critical and is not available locally. Patients travel overseas to get treated for serious ailments. Sometimes the facility for treatment may be available locally, but affluent customers do not trust such local facilities. Another factor is the reputation of the service provider. Students have been going out of their countries to study. Even some retail outlets have been able to attract customers from other countries.

Traditionally, service facilities have been able to attract only local customers. But if service companies spend resources on building strong brands, they can attract customers from distant locations. In addition, some like financial services, can be delivered electronically, and therefore distance between the service facility and customers does not really matter, but the existence of strong brands do. Traditionally, service facilities were not too keen on customers from distant locations and were content to serve the local population. Therefore there was not much emphasis on brand building and advertising. Promotion was mostly through word-of-mouth communication. But with international travel increasing and customers scouting for best services and deals internationally, it has become sensible to devote attention and resources on building brands and advertising.

2. Reliability

Is the service consistent and dependable? The service provider should be able to deliver the promised service each time the customer decides to avail of it. The process to produce the service should have been tested for effectiveness, the equipments should be well maintained so that they do not malfunction when in service, and service professionals should be competent in their basic task, and should also demonstrate proper behaviour. It is important to remember that while a customer may use many criteria to evaluate a service, he does not compromise with the primary service he is seeking. Therefore if a patient has to be operated upon, he will not check in even if the best facilities are available but the doctors are not competent.

3. Credibility

Can customers trust the service company and its staff? In most services, customers and service professionals come in frequent contact and customers are in a position to form an opinion about the service professionals. It is important that such opinions are positive. Customers also spend time in the service facility, so they rapidly learn about its systems and processes and their effectiveness. Service providers have very little hope of maintaining a façade of being a good place when they are not. What customers expect and what they get should match closely in services. The difference, if any, is quickly known to the customer. Most service facilities depend on repeated visits of their customers for their business. So every encounter between the customer and the service provider matters. Credibility of the service provider becomes very important when the business is dependent on repeat customers. Service providers will build credibility by being consistent in providing good services.

4. Security

Can the services be used without risk? Some, like medical services can be risky to the life of the customer. Some others like financial services, have personal information about the customer. It will be damaging to the customer if such information is leaked or passed on. The company should demonstrate that it understands customer concerns about their security and that it has adequate safeguards in place to prevent any mishap from happening. It will help if the service provider is candid about the risks involved in doing business with it and the precautions it takes to eliminate or reduce the risk. Customers would not take kindly to being exposed to certain risks without their knowing about it.

5. Understanding customer

Does it appear that the service provider understands customer expectations? If the company understands the expectations and also has the capability to serve them, the customer is satisfied with the service outcome. If the company understands the expectations of customers but does not have the capability to serve them, it should politely decline to serve the customers. Customers have good opinions about companies which decline business because they cannot do it well. It is very dangerous to engage with a customer when the provider knows that he cannot serve the customer effectively. Such a customer will spread malicious stories about the company, ruining its credibility. But if the company is not able to gauge the customer's expectation, it is actually in the dark. The customer will be unhappy with the company as he does not get what he expected but he will be confused as to why a competent company is not able to deliver. In such a situation, customers who have long-term relationships with the company will be patient, and will make efforts to make the company understand their requirements. But new customers will leave disgruntled.

6. Responsiveness

How quickly does service staff respond to customer problems, requests and questions? Customers go to a service facility with the sole purpose of availing the service. So they should be served promptly. Customers should always be encouraged to take appointments to avoid waiting. But if a customer needs an urgent service like immediate medical attention, it should be provided by taking the turn of some other customer. The company should specify and make known the exigencies under which a customer would be served out of turn so that the affected customer is not angry. In medical services, critical patients are treated ahead of less critical ones without anyone making much fuss over it.

7. Behaviour of employees

Does service staff act in a friendly and polite manner? A customer is a guest in the service facility and should be treated as such in all circumstances. But friendly and polite demeanour of service professionals is more than adherence to etiquette. Such behaviour adds to the value the customer is getting from the service facility. In a hospital when a patient or his family is stressed, the politeness of the staff helps them in coping with the situation. In a holiday resort, the friendly nature of employees adds to the enjoyment of the customers. Behaviour of the service provider is an integral part of the service offering.

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8. Competence

Does service staff have the requisite skills and knowledge? The performance of the primary service will depend on the knowledge and competencies of the service providers. It is important that their professional credentials are prominently displayed for customers to see and feel reassured. It is also important that the service providers are seen as updating their knowledge and skills. Their participation in seminars and courses should be well publicized. In the knowledge economy, the competence of service professionals will drive business and service companies would do well to keep their employees abreast with the latest knowledge in their respective fields and let their customers know about it.

9. Communication

Is the service described clearly and accurately? In most cases, a customer travels to the service facility to avail the service. If the service is not appropriately represented and described in the communications emanating from the company, customers may walk in expecting services that the company would not be able to perform. Such customers vent their disappointments, which can damage the company.

10. Physical evidence

How well managed are the tangible aspects of service? Since most services have high levels of intangible elements, it is important that the company provide physical evidence to customers, which will assure them that they will be provided a good service. The uniform of the doctor and his attendants, the confidence with which they converse among themselves and with the patient, the sophisticated look of the operation theatre give assurance to a patient as he is being wheeled in the operation room.

These criteria form a useful checklist for service providers wishing to understand how their customers judge them.

1.5.2 Managing Service Productivity

Productivity is a measure of relationship between the various types of inputs that are required to produce the service and the service output. There can be a conflict between improving service productivity and raising service quality. For example, a doctor who reduces consultation time per patient raises productivity, but reduces quality of service—he may not be able to diagnose the right cause of patient's illness. Increase in productivity which results in lowering of service quality will ultimately kill the business, as customers will eventually desert such a company.

Technology can be used to improve productivity and service quality simultaneously. ATM increases the number of transactions per period while reducing customer waiting time. Retailers have benefited from electronic point of sales and electronic data interchange. Customer comfort level with the technology should be ascertained and they should be allowed to use both technology-based solution and the personnel-based solution till they are convinced about the benefits of using the technology-based solution and are comfortable using it. Another matter to be ascertained is whether the customer still feels the need for the company personnel in whose place the technology is being applied. Some customers may find the company personnel providing services to them more reassuring. They have to be given more time to settle down with the technology-based solution.

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Service delivery process can be designed in ways that increase customer involvement in the service delivery process. The inseparability between production and consumption provides an opportunity to raise both productivity and service quality—customer can be used as a resource since he is present when the service is being produced. Self service, i.e., the customer doing a part of the service himself, can be employed as the customer is present at the site where the service is being produced. But the customer should believe that he is being adequately compensated for his lending a helping hand. A hotel that expects its customers to service their own rooms would need to convince that customers are being compensated for their efforts by being charged lower rates.

It is important to balance supply and demand. Since services cannot be stored, balancing supply and demand is a very strong determinant of productivity. Hotels or aircrafts that operate at less than full capacity will have low productivity because the fixed costs of their operations is very high, which is incurred irrespective of the number of customers availing of the service. If in the next time period, the hotel or airline is faced with excess demand, the unused space in the previous period cannot be used to meet it. Customers have to be turned away. The combined result is low productivity in the first instance and customer dissatisfaction in the other. By smoothing demand or increasing flexibility of supply, both productivity and service quality can be achieved. Smoothing demand can be achieved through differential pricing, i.e., the company charges higher prices when demand is expected to be high and lower prices when demand is expected to be low. The idea is to shift some demand from the high demand period to low demand period so that there is less variability in demand. If this shift in demand is achieved, the utilization of the facility is more even all through the year and less customers have to be turned away. A company can also stimulate off-peak demand by offering special schemes. Increasing supply flexibility may be achieved by using part time employees, multi-skilling and encouraging customers to serve themselves.

1.5.3 Managing Service Staff

Many services involve a high degree of contact between the service staff and customers. Quality of the service experience is heavily dependent on staff-customer interpersonal relationship. Research on customer loyalty in service sector shows that only 14 per cent of customers who stopped buying services from a service provider did so because they were dissatisfied with the quality of what they had bought. More than two-thirds of the defecting customers stopped buying because they found service personnel indifferent or unhelpful. The way in which service personnel treat their customers is fundamental to success in the service industry.

For service personnel to be in the frame of mind to treat their customers well, they need to feel that their company is treating them well. In companies where employees have a high regard for their company's policies and practices, customers have positive opinions of the service they receive. Happy employees are more likely to be helpful to customers.

While selecting suitable service professionals, the nature of the job needs to be defined, and appropriate personality characteristics needed to perform the job effectively, should be outlined. The service professional should have made personal sacrifices for the welfare of others in their earlier personal and professional lives. While most prospective candidates will profess to do anything for customers, it is difficult to

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contemplate them doing so when they have not done anything significant for their own people in the past. When a person has not made any sacrifice for a dear one, it is difficult to imagine him doing it for an anonymous customer. While looking for attitudinal and behavioural characteristics of candidates, it is best to probe in their past to find out if they have demonstrated the required characteristics in their earlier jobs.

Socialization allows the newly recruited service professionals to experience the culture and tasks of the organization. The idea is to create a type of individualism whereby the new employee accepts all key behavioural and cultural norms of the company but is encouraged to display initiative and innovation in dealing with problems of customers. Service quality is affected by the degree to which employees are empowered or given the authority to satisfy customers and deal with their problems. For example, employees of Marriott Hotel are allowed to spend up to £1000 on their own initiative to solve customer problems. The advantage is quicker response time since employees do not have to consult with their superiors before dealing with a problem, but the responsibility of employees is increased. Most employees will pass on the difficult problems to their superiors and expect them to take decisions. It is important that empowered employees are trained and are willing to take greater responsibility for customer problems. The company will have to condone the mistakes that the employees will make while solving customer problems independently and innovatively. Service professionals should have the confidence that they will get away with genuine mistakes.

Maintaining a motivated workforce in the face of irate customers and faulty support systems and boredom which accompanies some services, is a demanding task. The service provider should regularly and carefully monitor the technical support systems so that service personnel work with efficient equipment and facilities while serving customers.

Customer feedback is essential to maintain high standards of service quality. The results of customer research should be given to employees so that they can relate their performance standards to customer satisfaction. Companies should tie financial incentives of employees to the results of customer satisfaction surveys.

It is very important that employees of service organizations take pride in their jobs. Customers are important but employees should not be crucified to please unreasonable customers. Employees will treat customers with care only when they themselves are treated with respect by the company. The company should also insist that the customers treat the service professionals with respect, and as they maintain at the Ritz, 'We are ladies and gentlemen serving ladies and gentlemen.' In case the customer becomes ungentlemanly, the service organization should stand by its employees.

Check Your Progress

8. Enumerate the criteria for evaluating the outcome and meeting customer expectations.
9. What are the barriers in matching expected and perceived service levels of customers?
10. Which are the four elements of managing services?

1.6 SUMMARY

Some of the important concepts discussed in this unit are:

- Services have a greater impact on customers than products and many services are of greater need than products to consumers. Therefore, providers of services need to carefully analyse their resources and competencies and then conduct a market research to locate the segment they can best serve.

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- Services are intangible, inseparable from the provider, highly variable and perishable in nature, which is why the marketing of services has to be different than that of products, requiring appropriate operations and market structures to be created to produce and sell services profitably.
- Since services are intangible in nature, they present a problem in their assessment, particularly in the overseas market and trade. Growth in the service sector results in the growth of the economy by offering an exportable activity resulting in the inflow of wealth, by reducing the need to buy services from overseas and by combining with other primary and secondary activities allowing new production possibilities.
- The service sector encompasses a wide range of services including marketable or unmarketable services, producer or customer services and tangible or intangible services.
- Market segmentation means dividing a market among smaller segments or groups of consumers since all buyers do not require the same product and a separate value addition must be made for each group. The consumer in each group should buy the product for the same purpose, use the product in a similar manner and buy the product in the same manner. However, customers in one segment should be different from customers in the other segment.
- The main purpose of market segmentation includes target market selection, tailored marketing mix, market differentiation and identifying opportunities and threats.
- There are many decisions to be made by service providers while preparing their target market strategies such as undifferentiated targeting or mass marketing, concentrated targeting and multi segment targeting. Concentrated targeting entails niche marketing which is a focused portion of a larger segment and local marketing which consists of marketing programs tailored to the needs of local customer groups.
- Market segmentation of consumer markets is segregated on the basis of behavioural segmentation, psychographic segmentation and profile segmentation. Behavioural segmentation includes the benefits sought by a customer from a product, purchase occasion, purchase behavior, brand loyalty and usage, while psychographic segmentation includes a customer’s lifestyle and personality. Profile segmentation, on the other hand, includes demographic variables such as age, gender and lifecycle along with socio-economic and geographical variables.
- Organizational markets are segmented on the basis of macrosegmentation which entails the size of the organization, industry, and geographical segmentation as well as microsegmentation which includes a choice criteria for customers.
- The services provided to customers have to be managed in such a manner which promotes customer care when the customer is availing the service, which simultaneously improves the efficiency and effectiveness of providing services. Management of services includes managing service quality, meeting customer expectations, managing service productivity and managing the service staff.

1.7 ANSWERS TO ‘CHECK YOUR PROGRESS’

1. The characteristics of services are – intangibility, inseparability, presence of other customers, variability and perishability.

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2. The bases for classifying services are – marketable vs unmarketable, producer vs consumer and tangible vs intangible services.
3. The marketing of services encompasses professional services, car rental services, financial services, air travel services, telecommunication services and all types of hospitality services.
4. A niche market is a focused portion of a larger segment that is generally not being addressed by mainstream providers.
5. The target market strategies adopted by companies for marketing of services are:
    - Undifferentiated targeting or mass marketing
    - Concentrated targeting
    - Multi-segment targeting
6. The three broad groups of consumer segmentation criteria are – behavioural, psychographic and profile segmentation.
7. The mission statement of a company is formulated after giving a lot of thought great caution, keeping in mind the basic product of the company, the market it operates in, the technology used, the image of the company as well as its goals and philosophy.
8. The criteria for meeting customer expectations are – access, reliability, credibility, security, understanding customer, responsiveness, behavior of employees, competence communication and physical evidence.
9. The barriers in matching expected and perceived service levels of consumers are - lack of resources, bad delivery, lack of management's will, exaggerated expectations and exaggerated promises to customers.
10. The four elements of managing services are – managing service quality, meeting customer expectations, managing service productivity and managing service staff.

1.8 QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the characteristics distinguishing services from products?
2. What is the pattern of service delivery in the marketing of services?
3. What is the main purpose of market segmentation?
4. What is the concept of macrosegmentation in organizational markets?
5. Which key elements are to be kept in mind while managing services?

Long-Answer Questions

1. Explain in detail the characteristics of services.
2. How has the service sector become a vehicle for economic growth? Discuss.
3. Describe the various classifications of services.
4. Explain the process of market segmentation.
5. How is the consumer market segmented? Discuss with examples.
6. What is the vision and mission of an organization providing services marketing?
7. What is the criteria of meeting customer expectations while marketing services? Explain in detail.

UNIT 2 SERVICES POSITIONING AND DIFFERENTIATION

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Structure

2.0 INTRODUCTION

Positioning of services is the first step in services marketing in order to identify the best target segment to which services can be provided in the most efficient and effective manner. A company has to justify its services by assessing the reason for buyers choosing them over their competitors. They have to provide services which give them a greater competitive advantage over their competitors in the market either by selecting a niche market or a comparatively larger market segment. Evaluation of services is much more tedious than evaluating physical products, since products and goods can be examined before purchase while it is very difficult to examine services before experiencing them.

It is necessary to identify a suitable market position and develop strategies to achieve that position. These strategies include analysis of the market, the competition and the internal corporate environment. Positioning of services in the market helps in clarifying one's queries about the concept of the service provided, the firm's vision about the potential success of the service and the steps they would have to take in order to achieve the desired effect. Positioning strategies have to be formulated at every level to maintain a high level and good quality and ensure customer satisfaction. Sometimes, it may be inevitable for a company to make changes in an existing position which is known as repositioning. Repositioning involves changing both the target market and the differential advantage. Hence, positioning is an important element of services marketing and requires a lot of expertise regarding consumer behaviour and extensive market knowledge.

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Positioning: Positioning is the perception or image that customers have of a company and its services

2.1 UNIT OBJECTIVES

After going through this unit, you should be able to:

- Understand the concept and evolution of positioning
- Evaluate the importance of positioning and its role in the marketing of services
- Examine the process of positioning and its effect in the marketing strategy.
- Understand how services are positioned in the market
- Acknowledge the considerations to be kept in mind while positioning services
- Understand the necessity ad importance of repositioning

2.2 POSITIONING

Positioning is the perception or image that customers have of a company and its services. It is the customers' belief about the company's product being of, say, high quality, or low price, or reliable, etc. This perception is the stimulus of customers' attitude and behaviour towards a company's services. Customers' positive perceptions will drive the business of the company and negative perceptions will sink it.

2.2.1 Evolution of Positioning

Positioning can be defined as 'identifying a niche market for a brand, product or service, utilizing traditional marketing placement strategies (price, promotion, packaging, distribution and competition). It is also deciphered as the manner in which marketers impact and create an impression on the consumer's mind. The concept of positioning was first given by Jack Trout in the magazine titled '*Industrial Marketing'* in June 1969, in which he depicts that a typical customer gets overwhelmed with cluttered advertising and discards all information which is does not find a comfortable slot in his mind. The concept of positioning was further made popular and expanded by Jack Trout and Al Ries in their bestseller book '*Positioning-The Battle for Your Mind*' in 1981. In this book, they described positioning as systematized system for finding a window in the consumer's mind and that communication takes place at the right time under right circumstances.

It is dangerous and ridiculous to allow customers to develop their own perceptions about the company. It is the responsibility of the company to manage its customers' perceptions. A company should very clearly decide the view that it wants its customers to have about the company and its services, and work consciously and to diligently create that image in customers' mind. Every fact and act of the company shapes customer ideas directly or indirectly. A company should evaluate its every activity in terms of its role in creating positive customer perceptions.

A company has to select the target market in which it will offer its services. It will have to determine the differential value that it will provide to customers to make the products attractive to them, and communicate to customers the differential value it intends to provide to them.

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2.2.2 Target Market for Positioning

Where does the company want to compete? The company has to select the segments to which it will offer its services. It is very tempting to select the largest segment or the most profitable segment. The company should possess special competencies and resources to serve its target market, which means that before a company can zero on to its target markets, it should have done comprehensive research of requirements of customers of various segments, and an honest audit of its own resources and competencies. Quite often a company believes that it will be able to develop or acquire the required resources and competencies after identifying a target market. But it is never easy. A company should have a clear roadmap of how it will acquire or develop the required competencies and resources.

With respect to the number of target markets a company will pursue, it can choose from three target market positioning alternatives.

1. Undifferentiated targeting

A company uses an undifferentiated targeting strategy by adopting a philosophy of mass-market. It sees the market as one big entity without any individual segments. One marketing mix is used by the company for the whole market. The company functions on the assumption that a common marketing mix would be enough to meet the needs of individual customers, as their needs are similar. At this stage, there is no competition because the need for using marketing mixes to meet the requirements of various market segments is not felt by the company. Since there is no alternate offering, customers have to buy the pioneer's services. Marketing costs are also lower because only one service has to be promoted.

But undifferentiated targeting strategy is hardly ever a well-considered strategy. Companies adopting this strategy have either been blissfully ignorant about differences among customers or have been arrogant enough to believe that their services will live up to the customers' expectation till focused competitors enter the market with more appropriate services for different segments. Therefore, companies following this strategy will be susceptible to incursions from competitors who design their marketing mixes specifically for smaller segments.

2. Concentrated targeting

A company selects one segment to serve. It understands the needs and motives of the segment's customers and designs a specialised marketing mix. Companies have realised that instead of spreading resources over many different segments, it is more profitable to concentrate resources and meet the requirements of a narrowly defined market segment. Take the example of Starbucks which owes its success to exclusive focus on those customers who wished to buy gourmet coffee products.

Companies following concentrated targeting strategies are obviously putting all their eggs in one basket. If their chosen segment becomes unprofitable or shrinks in size, the companies will suffer. Such companies also face problems when they want to move to some other segments, especially when they have been serving a segment for a long time. They become so strongly associated with serving a segment offering a particular type of service, that customers of other sections find it very difficult to associate with them. They believe that the company can serve only that particular sector. Companies

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which start with the strategy of concentrated targeting but also wish to cater to more segments should start making forays into other segments early and periodically. The aim is to avoid the reputation of serving a particular segment exclusively. The company's association with any particular segment should not be so strong that customers are unable to accept the fact that the company can do other things also.

From the car makers' perspective, Mercedes offers premium cars for the upper segment of the market only. It does not offer cars for the middle and lower segments. But Mercedes segments the premium segment for its own purpose and offers different cars for its different premium segments.

3. Multi-segment targeting

A company following a multi-segment targeting strategy serves two or more than two segments that are well defined and also creates a marketing mix to cater to the needs of each segment. Separate brands are developed to serve each of the segments by most companies following this strategy. This target market strategy is the most sought after because it has the potential to generate sales volume, more profits, more manufacturing and marketing economies of scale as well as a bigger market share. However, this strategy also entails a lot more in terms of promotion, inventory, product design, production, marketing research and management costs. Cannibalisation is another potential cost which occurs when the sales of a new product affect the sales of the existing products of a firm. Therefore, it is essential to compare the advantages and costs of multi-segment targeting and concentrated and undifferentiated targeting, before using this strategy.

2.2.3 Differential Advantage

How does the company want to compete? The company has to provide answer to, 'Why would a customer of the target market want to buy my services, and not those of my competitors?' A company which is able to furnish an unambiguous answer has a clear positioning strategy.

Communicating the differential advantage to customers

A company may have created the appropriate offering for its target market but its customers should know that it has. Most companies are content with using advertisements to convey their positioning. Advertisements have become glossier and most advertising agencies do not understand the positioning of their client company empathically enough to be able to convey it in the ads that they make. But even when an honest attempt is made to convey a company's positioning through advertising, it cannot be done due to the short and impersonal pitch of advertisements. A company has to use all promotional means like publicity, sponsorship, personal selling, and direct mail to inundate customers with messages of its positioning. Of course, the messages emanating from these various sources should be consistent. In addition, every contact between the customers and the company should be so structured that its positioning is unambiguously conveyed. The first services should reach customers who are likely to be exuberant upon finding a good service. Word-of-mouth promotion will ultimately cement the company's positioning in the customers' mind.

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The objective of positioning is to create and maintain a distinctive place in the market for the company's products. Target market selection is a part of positioning. But to compete successfully in a target market involves providing customers with a differential advantage. This involves giving customers something better than what the competitors are offering.

A company's offer has to be distinct from that of its competitors and should fulfill the requirements of the customers of its target markets. A company's positioning is the result of whatever the company does. Marketing mix is the most tangible and the most flexible tool to create the desired positioning. Companies use their marketing mix to create something specific and special for the customer.

What makes consumers or institutional buyers select and remain loyal to one service supplier over another? Without knowing which product features are of specific interest to customers, it is hard to develop an appropriate and competitive strategy and is still harder to evaluate the service's subsequent performance in the marketplace.

The search for competitive advantage

As competition intensifies it becomes progressively more important for service firms to differentiate their products in meaningful ways. As far as highly developed economies are concerned, it has been observed that the growth rate is declining in mature consumer services such as education, hospitality, insurance and banking. Other industries such as passenger airlines are plagued by overcapacity. Growth then will come from taking the share of domestic competitors or by expanding into international markets. In each instance, firms should be selective in targeting customers and distinctive in the way they present themselves. It has become imperative for businesses to set themselves apart from their rivals. To achieve success, a business needs to be identified and promoted as the best provider of the qualities that the target customers deem the most important.

The need for focus in competitive strategy

Marketers define a market as the set of all actual or potential buyers of a particular core product. But it is unrealistic for a firm to try to appeal to all buyers in that market or at least to all buyers in the same way. In most instances buyers, whether individuals or corporations are too numerous, too widely scattered, too varied in their needs, purchasing behaviour and consumption patterns.

Different service firms also vary widely in their ability to serve types of customers. Hence, rather than trying to compete in an entire market, perhaps against superior competitors, each firm should adopt a strategy of market segmentation, identifying those parts or segments of the market that it can service best. Because each person or corporate purchaser has distinctive or unique needs and characteristics, any prospective buyer is potentially a separate target segment. Some personal and professional services are customised to the needs of the individual buyers (dentist, architect). But the majority of service businesses do not find such micro segmentation worthwhile. Instead, they make attempts for attaining economies of scale by means of marketing to all customers within a particular market segment and endeavour to serve all of them in the same manner. It is possible to achieve mass customisation (also known as partial customisation) through standardised core products that are albeit tailored with additional service elements that suit individual buyer requirements.

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Identifying and selecting target segments

Market segments refer to groups of buyers sharing certain common consumption patterns, purchasing behaviour, needs and characteristics. Segmentation is deemed effective when buyers are grouped into segments in such a manner that there is as much similarity as possible among the members of the group on the relevant characteristics, while at the same time, the same characteristics are dissimilar between different segments. Target segments are the segments selected by firms from amongst the segments in a far wider market. They are defined based on numerous variables. A department store in a particular city might target residents of the metropolitan area (geographic segments), who had incomes within a certain range, and who are not price sensitive. Because competing retailers would be targeting the same customers, the store would have to position itself in ways that creates distinctive appeal. Appropriate methods to highlight these might include a wide array of merchandise categories, breadth of selection within each product category, and availability of supplementary services such as finance and home delivery. Some market segments offer better opportunities than others.

It makes sense to select target segments based not only on their sales and profit potential, but also on the basis of the organisation's capability for matching or exceeding the competing offerings that are aimed at the same segment.

Some insight is required into the manner in which the current and potential customers in the various segments of the market value the different attributes or components of services. Some information is needed regarding the performance and quality level expected of every attribute, the important variations among the diverse segments regarding the significance attached by the customers to the different attributes, the extent to which these requirements are being met by rival firms, and so on. It is also useful to find out whether existing products can be redesigned to better meet customer requirements and whether they are in any way superior to competing products.

Understanding consumer choice behaviour

Physical goods are easier for customers to evaluate than services. Most goods are high in search characteristics that can be evaluated prior to purchase. Buyers can examine goods before purchasing them in order to determine their physical attributes. Services emphasise experience qualities that can only be discerned during consumption and credence qualities, which customers have to take on faith since they involve characteristics that are hard to evaluate even after consumption.

Developing a service concept for a specific context

Research is required for identifying the attributes of a particular service that are of significance to certain segments of the market and for determining the extent to which potential customers see the products of competing firms as performing against these attributes. However, different priorities may be set for these attributes by the same individual, on the basis of the following:

(i) The composition of the group

(ii) Whether the service is being used by an individual alone or in a group

(iii) The timing of the use (season/week/time of the day)

(iv) The decision-maker

(v) The purpose for which the service is used

Consider the criteria that a customer might use when choosing a restaurant for lunch while on a vacation trip with family versus selecting a restaurant for an expense account business lunch at which the same customer was meeting with prospective client versus choosing somewhere to eat for a quick lunch.

Importance vs Determinance

Consumers make their choices between alternative service offerings on the basis of perceived differences between them. However, the attributes that are instrumental in distinguishing competing services from each other do not always prove to be the most significant ones. For instance, many buyers see safety as the most important consideration while buying electrical appliances; however, since certain electrical appliance manufacturers are generally seen as producing safe products, the safety factor fails to influence customers. The attributes that are actually instrumental in determining the buyers' choices (known a the determinant attributes) between competing alternatives are often some way down the list of characteristics that are important to purchasers, for instance, food on board an aircraft instead of safety.

The determinant attributes have to be researched and it has to be found as to how each competing firm performs on these determinant attributes. Some attributes are easily qualified whereas others are quantitative and highly judgemental. Price and punctuality of transportation services are quantitative but characteristics such as the quality of personal service or a hotel's degree of luxury are quantitative and therefore subject to individual interpretation.

Creating a Competitive Position

Positioning refers to the establishment and maintenance of a unique position in the market for a firm and/or its individual product offerings. Some of the most successful businesses set themselves apart from the crowd for achieving a unique place with regard to their rivals. They attempt to separate themselves by means of modifying certain general characteristics associated with their particular fields and try to gain competitive advantage. The following questions have to be considered by the firm in this regard:

(i) What are the alterations that have to be made in our offerings for strengthening our competitive position within the market segments of interest to our firm?

(ii) How well do customers in different market segments perceive each of our service offerings as meeting their needs?

(iii) How do our service offerings differ from those of our competitors?

(iv) What are the features of our current core product and supplementary service elements?

(v) Who are the customers we serve now and whom would we like to target for the future?

(vi) What kind of image is currently produced by our firm in the minds of current and potential customers?

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Competition will not only be with firms within one industry but across industries. Museums compete not only with other museums, but also at a generic level with alternative forms of education, entertainment and recreation.

Repositioning involves charging the existing position. It means revising services characteristics or redefining target market segment. If the firms level, repositioning involves abandoning certain products and withdrawing completely from some markets.

Copy positioning vs Product positioning

Positioning is a reflection of the consumers' perception of a product or an organisation's performance on certain attributes as compared to one or more competitors. Consumers' brand choices reflect which brands are known and remembered, and how each of these brands is positioned within each customer's mind.

People make their decision based on their individual perceptions of reality, rather than on an expert's definition of that reality.

Advertising is used to create images and association for broadly similar products so as to give them a special distinction in the consumer's mind. This is called copy positioning. An example is the visual imagery of the rugged western cowboy created by Marlboro. This has nothing to do with the physical qualities of the tobacco. It is just a means of differentiating and adding glamour to what is essentially a commodity. But we have to see the role of positioning for services that compete on more than just imagery or vague promises. This entails decisions on substantive attributes that are important to customers, relating to product performance, price and service availability. To improve a product's appeal to a specific target segment, it may be necessary to change its performance on certain attributes, or to reduce its price or to alter the times and locations when it is available. The role of communication is to ensure that prospective customers accurately perceive the position of the service on dimensions that are important to them in making choice decisions. Additional excitement and interest may be created by evoking certain images and associations in advertising but these are likely to play only a secondary role in customer choice decisions, unless competing service are perceived as virtually identical.

2.2.4 Positioning Role in Marketing Strategy

Positioning links market analysis and competitive analysis to internal corporate analysis.

Uses of positioning in marketing management:

(i) Define and understand the differences between products and services

(ii) How does the product compare with competitive offering on specific attributes?

(iii) How well does product performance meet consumer needs and specifications on specific performance criteria?

(iv) What are the segments to target?

(v) What attributes need to be offered relative to competition?

(vi) Whether to appeal to the same segment or to new ones?

(vii) What attributes to add, drop or change?

(viii) What attributes to emphasise in advertising?

(ix) Should products that do not satisfy consumer needs be eliminated or face excessive competition?

(x) Where to offer the product and how much to change?

(xi) Which targets are the most easily convinced that the produce offers competitive advantage and attributes that are important to them?

(xii) Which attributes should be emphasised and which competitor if any should be mentioned as the basis for comparison on those attributes?

(xiii) Which communication channel should be used?

Developing a positioning strategy can take place at several different levels depending on the nature of the organizations involved. Among multi-site, multi-product, services business, a position might be established for the entire organization, for a given service outlet or for a specific service offered at that outlet. It is particularly important that there be some consistency between the positions held by different services offered at the same location, since the image of one may spill over to others.

Because of the intangible, experimental nature of services, an explicit positioning strategy is valuable in helping many prospective customers to get a mental 'fix' on a product that would otherwise be amorphous.

Failure to select a desired position in the marketplace may result in the following outcomes.

(i) There exists no position for the organisation (product) in the marketplace as no one has any idea of its existence.

(ii) The position of the organisation (product) is so unclear that no one is aware of what its competence really is.

(iii) The organisation's product gets pushed into a position that no one wishes for due as there would be fewer customers there.

(iv) The organisation gets pushed into a position where it faces head on competition from strong competitors.

2.3 POSITIONING AND SERVICES

2.3.1 Importance of Positioning

The main objective of positioning is to create a distinct place for a company's services not only in the market but also in the minds of the customers. Jack Trout has postulated the following four principles regarding positioning of service or products in the marketplace:

1. A company must establish a position in the minds of its targeted customers.
2. The position must be singular, providing one simple and consistent message.
3. The position must set a company apart from its competitors.
4. A company cannot be all things to all people; it must focus its efforts.

These principles provide the basis for devising a competitive positioning strategy in a marketplace. These principles hold true for the marketing of both services as well as goods. In relation to these principles, the following self-reflexive inquiries provide

Check Your Progress

1. What is the definition of positioning?
2. Enumerate the target market positioning alternatives a company can choose from while positioning.
3. What are the components of a good positioning strategy?

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service providers an opportunity to assess their firm's ethos and current standing in the market in terms of what they have to offer.

- A firm must analyse what it stand for in terms of how its customers perceive its offerings as well as its brand image.
- A firm must analyse its existent customers as well as the ones that it would like to target in future.
- A firm must be clear about the nature of its current services, including the core service as well as the supplementary added-value service/products it offers.
- A firm must evaluate at what segments of the market its services are aimed.
- It must mark out the differentiating features of its services that set the firm apart from its competitors.
- A firm must find out if there is a gap between what it offers and what the customers perceive it offers and if there is a disparity between the two as far as meeting their needs is concerned.
- Finally, it must work out sound marketing strategies to build up strong base within its target segment.

Developing a Market Positioning Strategy

An effectual positioning strategy is devised in a way that takes into consideration the prospects as well as threats to the organization in a competitive marketplace. It includes a thorough market analysis that reveals the existing competitors, and possible competition from substituting service products. The following illustration marks out the fundamental steps regarding the identification of an appropriate market position and evolving a corresponding market strategy in order to reach out to it.

Market Analysis

It involves a comprehensive analysis of the related factors, for instance, the level of demand for the kind of service the firm is offering in a particular market segment, its geographic suitability of the same and the recent trend of demand for the same. A careful evaluation of such data reveals the movement of demand—increasing or decreasing—over a given period. It also exposes variations, if any, in relation to specific regions. There may be several parameters according to which an organization considers various market segments. The size and potential of each market segment should be evaluated. A thorough study must be undertaken in order to understand the needs and preferences of customers of particular market segment as well as to gauge how customers perceive of the competing firms and their services.

Internal Corporate Analysis

It deals with the identification of the organization's goals and values in terms of profits, growth, professional targets, and work culture. An internal analysis is done to evaluate the organization's resources in terms of human labour, material assets or technical proficiency, etc. This kind of analysis helps in narrowing down the focus on select target segment with a particular vision in terms of the service the firm seeks to provide its customers.

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Competitor Analysis

This analysis helps an organization evaluate the competition's strengths and weaknesses and formulate a strategy based on it. It further helps by developing opportunities for differentiation of the firm in terms of its brand identity and image. Coupled with internal corporate analysis, competitor analysis also helps in achieving differentiation, as the market strategists are able to decide which strengths and which differentiating factors to focus on while marketing the service. This analysis takes into consideration both direct and indirect competitions.

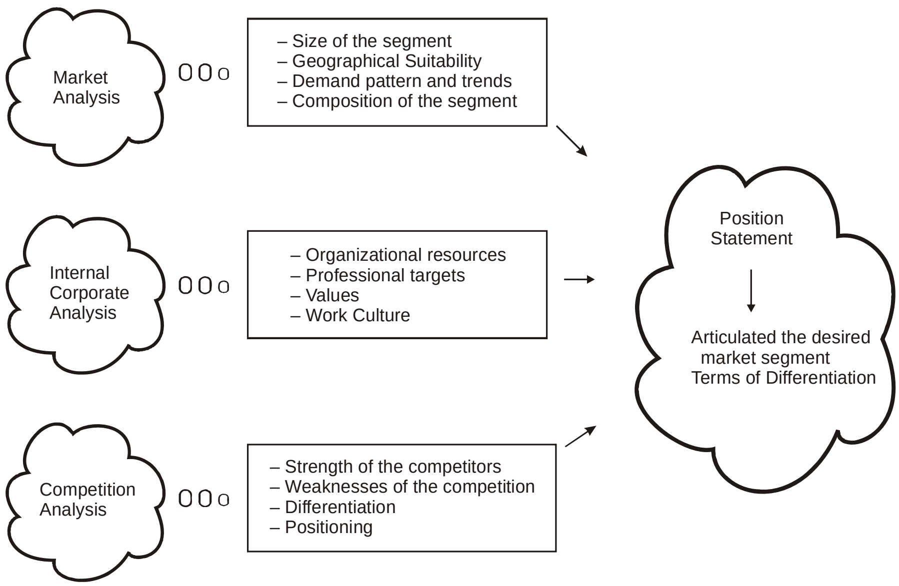


Fig. 2.1 *Competitor Analysis*

Position Statement

It is the final report developed by putting together all the above-mentioned analyses. It states the preferred position of the firm in the market, articulates all aspects of the service it offers and the market segment it seeks to target. This final statement presents a coherent vision for the organization based on which the market strategists are able to formulate a holistic market strategy.

2.3.2 Process of Positioning

Competitive strategy is often narrowly focused at direct competitors, i.e. firms which market products that offer a similar way of achieving the same benefits (colleges offering similar classes). However, there may also be a serious threat from generic competitors which offer customers a different way of achieving similar benefits (distance education)

It is important to highlight both opportunities and threats to the firm in the competitive marketplace, including the presence of generic competitors.

The basic steps involved in identifying a suitable market positioning and developing a strategy to reach it:

(i) *Market Analysis*: Determines overall level and trend of demand and geographic location of this demand. Alternative ways of segmenting the market should be considered and an appraisal should be made of the size and potential of different market segments.

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Research is needed to gain better understanding not only of customers' needs and preferences within each of the different segments but also of how each perceives the competition.

(ii) *Internal corporate analysis*: Identifies resources and limitations of its management. Using insight from this analysis, the organization is able to select a limited number of target markets which it is willing and able to serve with either new or existing services.

(iii) *Competitive analysis*: Strengths and weaknesses of competitors are analysed which suggests opportunities for differentiation. Relating these insights to the internal corporate analysis should suggest which benefits should be offered to which target market segments. The outcome of integrating these three forms of analysis is a positioning statement that articulates the planned positioning of the organization in the market.

2.3.3 Effects of Positioning in Market Strategy

Positioning a service product in the market plays a crucial role in overall marketing strategy. All three analyses—market analysis, competitive analysis and internal corporate analysis—are put together to formulate a positional statement. This comprehensive statement aims at answering the following queries:

- What is the concept that the service product is based on?
- How does the firm envision it?
- What actions must be undertaken to achieve the set goals?

An in-depth analysis of the positioning plays the important role of serving as a diagnostic tool. It attends to the following queries:

1. In terms of identifying the relationship between the market and the service product:
   (i) Product's value in comparison to those offered by the competition
   (ii) The gap, if any, between the customers' expectations from the service product and the actual performance of the product
   (iii) Determining the approximate level of consumption of the product with a particular set of features when offered at a given price
2. Identifying the scope and opportunities for the product in the market
   (i) When launching a new product
      (a) The identification of the segments to be targeted
      (b) The distinguishing features that set the product apart from the competition
   (ii) While repositioning an existent product
      (a) The identification of the target segment, in case of a change in the same
      (b) The addition of new features or the removal of the same
         - The features that need to be emphasized while marketing the product
      (c) Removing the products from the market, in case of

- Dissatisfaction among the customers regarding it in terms of not fulfilling their expectations
- Aggressive competition from several quarters

3. Charting out new strategies to anticipate competition's moves and to tackle them, in terms of
   (i) Distribution strategies
      - Nature of distribution in terms of channels/stores/outlets
      - The availability of the product, in case of season-specific services

   (ii) Pricing Strategies
      - The overall charge for the service procured
      - The nature of payment, the billing procedures to be undertaken

   (iii) Communication Strategies
      - The section of the target segment that believes that the product provides more benefits that are crucial to their needs than the services offered by the competition
      - The features that need to be emphasized as differentiating factor and the competition, if any, that will serve as the basis for the differentiation
      - The message to be used in marketing
      - The preferred channel of communication, in terms of personal communication or the use of media
      - The ability of the chosen channel of communication to convey the desired message to the target segment, at the same time underlining the selected image of the service brand

2.3.4 Levels of Positioning

A positioning strategy must be formulated at different levels based on the type of the service concerned. In a service product that entails multiple sites or multiple products, a single positioning strategy might work or the marketers may have to devise separate positioning strategies for particular outlets. However, in case of a business that offers several services, it is important to maintain a level of consistency as far as the quality of the service is concerned. For instance, if a medical institute is renowned for its obstetrics, its reputation for the same will influence people's opinions about its other services.

Services are intangible in nature and can only be experienced. One of the main objectives of the positioning strategy is to furnish a physical image of the service in the minds of the customers. A gap in the marketing action plan may lead to a failure in procuring the desired target segment. It may result in:

- A direct and aggressive competition by the competitors
- Service product's inability to gain customers or generate demand
- Firm's inability to differentiate the service, resulting in it getting lost in the plethora of services already available in the market
- There being no market space for the service product in case of ineffective communication channel

Positioning can be considered at several levels:

i. **Organizational positioning** – the positioning of the entire organization.

ii. **Industry positioning** – the positioning of the entire service industry.

iii. **Individual product or service positioning** – the positioning of individual or a particular product.

iv. **Product sector positioning** – the positioning of a class or assortment of related products and services offered by the organization.

2.3.5 Considerations in Positioning

There are many consideration to be kept in mind while positioning. Some consideration are discussed below:

1. Anticipating the competitive response

One or more competitors might pursue the same market position. Another service firm may have independently conducted the same positioning analysis and arrived at similar conclusions or an existing competitor may feel threatened and reposition its own services so as to compete more effectively. The best manner of anticipating possible competitive responses is identifying all the current and prospective rivals and putting oneself in their management's shoes to conduct internal corporate analyses of all these competing firms.

2. Evolutionary positioning

It is only rarely that positioning statements are static. They need to evolve over time along with an organisation's shifting competitive activity, technology, market structure and evaluation.

3. Developing positioning maps

Perceptual mapping represents consumers' perceptions of alternative products graphically. Information about a product's position relative to any one attribute can be inferred from market data or from representative customers. If consumer perceptions of service characteristics differ sharply from reality as defined by management, then marketing efforts may be needed to change these perceptions.

For instance, positioning maps can be drawn for an industry such as the hotel industry. There are different classes of hotels based on the ability and willingness to pay for increasing levels of luxury and service, as well as factors such as more desirable location.

4. Changing perceptions through advertising

Sometimes weaknesses are perceptual rather than real. Presence of halo effects makes it difficult to assess the specific strengths and weaknesses of competing services. One problem in consumer satisfaction research is that respondents complete survey questionnaires quickly without thoughtful consideration of the different dimensions on which they are rating a service firm's performance. In-depth interviews are a more reliable way to probe customer's evaluations. A positioning strategy is only as good as the quality of the information used in constructing it.

As conditions change, research needs to be repeated and maps redrawn to reflect the dynamic nature of the marketplace. New market entrants and repositioning of existing competitors may mean that a formerly distinctive position has ceased to be so.

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Marketing Mix for Positioning

Service businesses use their marketing mix to design strategies specifically for their target customers. There are many ways in which the companies can use their marketing mix effectively. Some of the ways have been enumerated as follows:

- They can differentiate their services by giving customers more benefits than the competition.
- They can appeal to the stimuli that the target customers will react to most.
- They can advertise with either emotional messages or rational ones or a blend of both depending on the nature of the target customers.
- They may resort to specific sales tactics, or methods of persuasion depending on the target market.
- Instead of using many distribution channels at the same time, it is more economical to use just one channel that is most suitable for a particular target market.
- Some target customers are insensitive to price because they only expect value of the highest order. On the other hand, some target customers are extremely sensitive to price. It's important to devise a strategy that takes into account both kinds of customers.

Differentiation be achieved be the following methods:

- By mapping the customer's experience with the service
- By creatively providing additional reminding service (for various services that are due—for example, auto servicing, medical check-ups, etc)
- By making it convenient for the customers to avail of a service (e.g., facility of picking up clothes for drycleaning from the customer's home)
- By attempting to deliver services at the doorstep (e.g., facility for delivering pet care products and feed on a monthly or weekly basis)
- By providing services on time (e.g., facility of checking electronic gadgets at regular intervals)
- By allowing the customer to pay in a way that is most convenient for him/her
- By conducting service recovery (in case of service failure) to the complete satisfaction of the customer (e.g., giving a hair cut free of cost to make up for a disappointing hairdo)
- By being extremely courteous and friendly to the customers

2.4 REPOSITIONING

Repositioning involves changing target markets or the differential advantage or both. There are four generic repositioning strategies.

Check Your Progress

4. List the basic steps involved in identifying a suitable market position and developing a strategy to achieve it.
5. Which are the basic levels of positioning?
6. What is the main objective of positioning?

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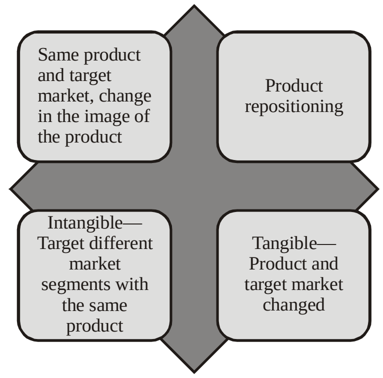


Fig. 2.2 *Repositioning*

Same product and target market, change in the image of the product

The product may be acceptable in functional terms but fails because it lacks the required image. The communication emanating from the company is overhauled. The advertising message is changed. The contexts and the structure of the contexts in which the customers come into contact with the company are changed to reflect the new image.

It is not easy to effect such a repositioning. Because the company and its products do not change in any substantive way, it is very difficult for the company to believe that it is different from what it was earlier. And unless the company does not truly believe in its new image, it cannot communicate the new image effectively to its customers. A company should engage in intensive internal communication to make its people feel differently about themselves before they start projecting the new image to the customers. Often a company may make superficial external changes, such as in packaging, to convey this type of repositioning to its internal and external customers. They do not work.

Repositioning: Repositioning refers to the changes that organizations make in an existing position

Repositioning refers to the changes that organizations make in an existing position. For instance, let us suppose, Restaurant A has been offering home delivery of orders within a radius of eight kilometers for a long time now. Its delivery speed has earned it quite a name. Its rival, Restaurant B, began delivering orders at the customer's doorstep within a radius of ten kilometers. The only way Restaurant A could beat competition from Restaurant B was by staying a step ahead of Restaurant B. It began delivering the orders in thermal packs that kept the food hot for a considerable time period. Soon, Restaurant A became known for delivering hot meals. This change in the nature of the service being offered or a revision in a firm's target segment is known as repositioning. In the example cited above, timely repositioning helped Restaurant A to gain a name as the provider of hot food at the doorstep.

2.4.1 Types of Repositioning

1. Product repositioning

The product is modified to make it more acceptable to its present target market. Customer requirements may have changed and the product has to be modified to be able to serve the new needs effectively. The company may have acquired new resources and competencies enabling it to modify the product so that it serves the target market better.

2. Intangible repositioning

The company targets different market segments with the same product. The company is able to locate a segment which has requirements, similar to the requirements of the

segments it is serving. The company retains its value proposition and offers it to new segments.

3. Tangible repositioning

Both product and target market are changed. A company may decide to move up or down a market by introducing a new range of products to meet the needs of the new target customers.

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2.5 SUMMARY

Some of the important concepts discussed in this unit are:

- Positioning can be referred to as the image or perception that consumers have about an organization and the services provided by the same. Therefore, it is the responsibility of the organization to manage the perceptions of its customers and to provide them efficient services in order to create a positive and successful impact on them.
- The company needs to follow many strategies in order to have a clear and effective positioning strategy which includes communication of the differential advantage to consumers, searching for an advantage over one's competitors, focusing on the competitive strategy, identifying and selecting target segments and understanding the choice of the consumers.
- Positioning becomes important for a company in terms of marketing since it creates a distinct place for their services not only in the market but also in the consumer's mind. For this competitive advantage, a company needs to develop a successful market positioning strategy with market analysis, internal corporate analysis and competitor analysis.
- A positioning strategy has to be devised at various different levels based on the type of service. If a service product entails multiple sites or products, it is not necessary for a single positioning strategy to work on the consumers and the marketers may have to develop separate positioning strategies.
- There are some considerations to be kept in mind while using positioning which includes anticipating competitive response, evolutionary positioning, developing positioning maps and changing consumer perceptions through advertising to name a few.
- The business of providing service to buyers uses their marketing mix to design strategies with their target customers in mind. Some of the strategies include differentiating their services by giving customers more benefits that their competition, appeal to the stimuli that the target customers will react to the most and resorting to sales tactics or persuasion methods depending on the target market.
- Services are intangible in nature and cannot be seen. However, they can be perceived which is why a positioning strategy should be able to furnish a physical image of the service in the consumer's mind.
- Repositioning refers to the changes that an organization makes in existing positions. It involves changing target markets or the differential advantage of the service. The different types of repositioning include product repositioning, tangible repositioning and intangible repositioning.

Check Your Progress

7. What do you understand by repositioning?
8. Name the types of repositioning strategies.

2.6 ANSWERS TO 'CHECK YOUR PROGRESS'

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1. Positioning is the perception or image that customers have of a company and its services.
2. The target market positioning alternatives a company can choose from while positioning are – undifferentiated targeting, concentrated targeting and multi-segment targeting.
3. The components of a good positioning strategy are:
   - Communicating the differential advantage to customers
   - The search for competitive advantage
   - The need for focus in competitive strategy
   - Identifying and selecting target segments
   - Understanding consumer choice behaviour
4. The basic steps involved in identifying a suitable market position and developing a strategy to achieve it are market analysis, internal corporate analysis and competitive analysis.
5. The basic levels of positioning are organizational positioning, industry positioning, individual product or service positioning and product sector positioning.
6. The main objective of positioning is to create a distinct place for a company's services not only in the main market but also in the minds of the customers.
7. Repositioning refers to the changes that organizations make in an existing position.
8. The four generic repositioning strategies include – product repositioning, tangible repositioning and intangible repositioning.

2.7 QUESTIONS AND EXERCISES

Short-Answer Questions

1. How does a marketer of services create a competitive position in the market?
2. Briefly explain the criteria for understanding consumer choice behaviour in the market.
3. What are the ways in which a company can effectively use their marketing mix? Enumerate.
4. How does a marketer identify and select target market segments?
5. Explain how positioning maps are developed by service marketers.

Long-Answer Questions

1. Which are the three target market positioning alternatives a company can choose from while positioning? Explain in detail.
2. Examine the role of positioning in a marketing strategy.
3. Describe the process of positioning services in the market.
4. What are the various levels of positioning services in the market? Discuss.
5. How does positioning effect a marketing strategy developed for marketing of services?
6. What is repositioning? Explain in detail the types of repositioning.

UNIT 3 SERVICES MARKETING MIX

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Structure

3.0 INTRODUCTION

The services marketing mix pertains to a vast array of services developed to serve a particular segment of consumers within a specific range. The main constituents of a services marketing mix are the product, place, price, promotion, people, process and physical evidence, more popularly known as the 7Ps of services marketing. The traditional 4Ps of marketing mix, which are product, place, price and promotion, were deemed insufficient when it came to services marketing since these are controllable variables and the character of services marketing is quite unique, which led to an expansion of the marketing mix by including three more variables namely people, process and physical evidence.

The proper implementation of these variables in the marketing of services definitely gives an organization a competitive edge and leads to successful fulfillment of its goals and objectives. However, it is also important for an organization to develop a marketing strategy in order to define the activities and processes constituting a service and the role of the personnel providing the services. This will help in predicting the output of the services provided to customers. The allocation and monitoring of resources is another important facet in the services marketing procedure. The management and allocation of the four important resources which are the personnel, capital, machinery and raw material is an important task in the planning process for a marketing venture. Defining the type of service, target customers, market segment, competition, internal and external resources along with the budgeting decision helps in developing and implementing a prosperous marketing plan for services.

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3.1 UNIT OBJECTIVES

After going through this unit, you should be able to:

- Examine the 7Ps of marketing, namely product, promotion, price, place, people, physical evidence and process and understand their components
- Understand how a marketing mix strategy is formulated, keeping in mind the 7Ps
- Examine the allocation and monitoring of resources
- Develop marketing plans and services

3.2 MARKETING MIX ELEMENTS: 7Ps

The traditional 4Ps of product, promotion, prices and place remain but three additional variables—people, physical evidence and process are included to produce a 7Ps framework. The need for extension is due to high degree of direct contact between the firm and the customer, the highly visible nature of the service production process, and simultaneous production and consumption of services.

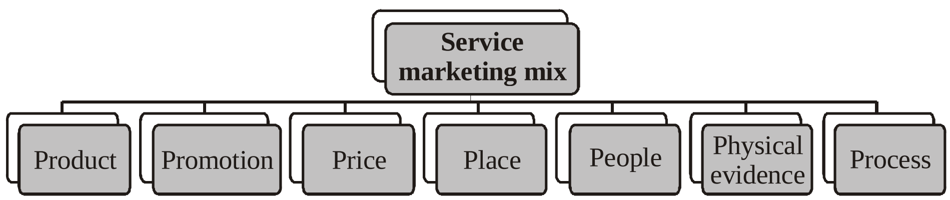


Fig. 3.1 *The Service Marketing Mix*

3.2.1 Product (Service Product)

Physical products can be inspected and tried before buying but pure services are intangible. A customer cannot go to a showroom to see a medical operation that he is considering. This means that customers of services suffer higher perceived risk in their decision-making process. They do not know whether they have purchased the right service until they have used it and in some cases like medical service and car service, they cannot be sure whether they have received the right service long after they have consumed the service. The three elements of the extended marketing mix—people, physical evidence and processes provide cues about the quality of the service to the customer, and are crucial in influencing the customers' perception of service quality.

Brand name of a service can also influence the perception of a service. It is sad that service providers do not expend necessary resources and efforts in building strong brands. In situations where customers are unsure of the quality of their purchases, strong brands provide an assurance to customers that the company has a history of good quality. Customers spend lot of time, money and effort in ascertaining the likely quality of service they propose to buy and the providers do the same in assuring the customers of high quality of their offering. Both parties would be greatly served if service providers build strong brands. Customers would be less unsure of the quality that they will get. Besides promoting its service, a provider should provide high quality

of services consistently so that customers talk about it favourably. A strong service brand is built by a combination of advertising and positive word-of-mouth publicity. Both are necessary. Positive word-of-mouth publicity without being supplemented with advertising will create a strong local brand. Customers from distant locations would not be attracted to it. Advertising without being supplemented with positive word-of-mouth publicity will create awareness but customers will still look for affirmation from customers who have actually used the service.

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Expanding the service product portfolio

Bajaj FinServ is the financial arm of Bajaj Auto that offers loans for various needs. Bajaj started its finance business by offering life insurance and general insurance in a joint venture with the Allianz group from Germany and Bajaj Auto Finance. The group realized a much greater potential market for loans, advisory and insurance. Thus, it led to the formation of an independent finance arm of Bajaj, and from Bajaj Auto Finance, the company became Bajaj Finance.

The company now offers loans for consumer durables, personal loans, loan against property, small business loans, construction equipment loans and loan against securities, besides its insurance services. Thus, from automobile financing, the company has diversified into giving all types of loans. The company's aim is to be available to the customer at every step wherever he may require a loan. Next, the plan is to launch Bajaj Financial Solutions, a financial products distribution and advisory company. Ultimately, it wants to obtain a banking licence.

Fig. 3.2

At the moment, the focus is on consumer finance, which is a tough market. The biggest rival for Bajaj finance in financing the purchase of consumer durables is the credit card, and not any bank or non-banking financing company. Loans of Bajaj Finance are offered at zero interest rates, as compared to rates as high as 35 per cent with credit cards. The loan processing time is also very less. The company gives a loan to the customer upon the purchase of a durable, and in turn is paid by the manufacturer. According to the company, this strategy has paid off for it, as around 40 per cent of credit card users have opted for a loan from Bajaj Finance, the consumer finance arm of Bajaj FinServ. The company operates in around 50 cities, and its share in consumer finance is nearly 15 per cent in these markets.

The distribution network of Bajaj Finance is extensive. It has also entered into collaborations with organized electronic retail chains such as Vivek's, Croma and Ezone. In most of the retail outlets, Bajaj's credit officers have been stationed. Besides credit officers, the company has also opened several proprietary offices to disburse loans. Consequentially, the company has numerous touch points with customers. Bajaj Finance will also grow its network. Almost 80 per cent of the distribution network will be outside the metros. As the market for consumer electronics is buoyant in India, this is a smart strategy.

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At present, the default rate in consumer businesses is less than 3 per cent. But this has come down drastically. A few years back, bad debts went up sharply and Bajaj, which was financing two-and three-wheelers then, is still paying for those mistakes. Now, the company mans its outlets with locals, so that the borrower or lender is not an unfamiliar face. Bajaj Finance knows that it needs to choose its customers carefully. It now deals with wealthier borrowers who have the ability to weather a downturn. It does not mind lending more to customers who have the capacity to repay. The average size of a loan for durables was ₹ 13,000 a few years back for Bajaj, which has now increased to ₹ 23,000, though prices of durables have actually reduced. The loan size is important in consumer financing because smaller loans are not profitable to finance, as debt collection is an expensive process.

The company is leveraging its existing network to offer loans to small businesses as well. But lending to small businesses is a risky venture, because a small business can be wiped out even due to a single bad business cycle. Their low turnovers and thin margins ensure that small businessmen cannot survive for long under adverse circumstances. They cannot invest much in working capital, and if their stocks lie unutilized for long, their money gets tied up in it because of which profits vanish. Therefore, Bajaj Finance makes very prudent decisions about which small businesses they need to lend money. They do not lend money to computer assemblers and jewellery exporters. But they lend to more stable small companies that are engaged in the infrastructure business such as buying construction equipment, where loans can stretch up to ₹ 30 lakh. The company is wary because in the past, lenders piled up losses even with asset-backed loans because they mispriced assets in the quest for market share. The company can also get into ‘neighborhood financing’, i.e., it can restrict the catchment of a branch to a radius of 3 or 4 kms so that it is easy to stay in touch with the customer.

Bajaj Finance wants to pursue the same strategy of increasing the loan size for other markets as well. The average size of loans to small businesses is ₹ 16 to ₹ 17 lakh, compared with the industry average of ₹ 8 to ₹ 10 lakh. There are some large businesses as well that are risky. Bajaj Finance has set up a risk management team that evaluates every prospective customer who seeks a loan from the company. It has a complete database of companies from the Credit Information Bureau (India) Ltd and its own database of nearly 5 million customers which is utilized to assess the credit worthiness of its prospective customers. The company's team is experienced, and has the ability to track customer loans even on the basis of customer behaviour across different regions across the country.

Bajaj Finance offers a distinctive value proposition to each one of its premium customers. This is important in order to gain a competitive advantage in the market. Bajaj Finance borrows money from the bank to lend it to its customers. So, the company cannot provide loans at the same rates as the bank. Its loans are 25 per cent to 5 per cent more expensive than the lending rates of the banks. Therefore, it thought of ways by which it could provide some additional benefits in order to attract customers. It provides concessions or refunds to customers who pay their installments regularly, and on time. Unlike many banks which charge a penalty for pre-payment of loans, Bajaj Finance does not do so.

Bajaj Finance differentiates on the basis of its services. It disburses loans faster than competitors. Customers can pre-pay their loans online, and upon the repayment of the loan, the company returns the property documents in less than 5 days, which is the best in class in the Indian market. Customers can access its call centres 24X7.

Bajaj Finance can earn profits of upto 10 per cent on some loans. It borrows funds at 8.5 per cent to 9 per cent, and lends at nearly 24 per cent for unsecured loans, and nearly 14 per cent for property loans. The distribution of other products such as insurance also increases the company's profits. While it is not easy to cross-sell products, it is important to do so because fee incomes from insurance products can support the margins in the lending business.

Bajaj's track record with insurance products has been quite good. However, its market share has decreased, though the company is still quite profitable because it uses its capital efficiently. The vision of Bajaj is to start a private bank ultimately, and to become a one-stop shop for the finance needs of a customer. Therefore, the company wants to broaden its asset portfolio and encompass infrastructure funding, trade finance and working capital. The company also wants to expand to smaller Tier II and Tier III cities with a view of growing its customer base. For this, Bajaj wants to leverage the relationship with Allianz.

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For some services, trial is possible. Some hotels invite key decision makers of communities to visit their hotels free of charge to sample the facilities and services. The hotels hope that they will recommend the hotel to their members.

3.2.2 Promotion and Communication of Services

The intangible elements of service are difficult to communicate. It may be difficult to represent courtesy, hard work and customer care in an advertisement. The idea then is to use tangible cues that will help customers understand and judge the service. A hotel can show the building, swimming pool, friendly staff and happy customers. Testimonials from satisfied customers can be used to communicate service benefits. Personal selling can also be effective in services marketing because of the high perceived risk inherent in many service purchases. A salesperson can explain details of a personal health plan, can answer questions and provide reassurance.

Because of high perceived risk inherent in buying services, sales people should develop lists of satisfied customers to be used in reference selling. Sales people need to be trained to ask for referrals. Customers should be asked if they know of other people or organizations that might benefit from the service. The customer can then be used as an entry and point of reference when approaching and selling to the new prospect.

Word-of-mouth publicity is critical to success because of the experimental and experiential nature of services. Talking to people who have visited a resort is more convincing than reading holiday brochures.

Personal influences play a dominant role in the choice process of services. Therefore, it is important that the service provider takes deliberate steps to engender word-of-mouth communication. A company can follow the following approaches:

- A company can persuade satisfied customers to inform others about their satisfaction. The company can identify customers who have been especially pleased with its service and maintain relationships with them by offering them special deals. The customers are subtly asked to recommend the services to people they know. The company can have schemes in which it rewards customers who recommend and introduce others to their service. But such schemes should be played down because prospective customers will be wary of such recommendations if it comes to be widely believed that companies pay for eliciting recommendations. In any case the rewards should just act as triggers. Customers should feel that the service is worth recommending. And not many customers would be willing to stake their reputations for paltry sums, i.e., it is unlikely that a customer will recommend an inappropriate service to his friend or relative.

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- A company can develop materials that customers can pass on to others. Customers who are extremely satisfied with services of a particular provider recommend the provider to their acquaintances because they genuinely feel that the service provider is good and they feel that they will be helping out their friends by recommending a genuinely good service provider. When a company leaves information material with their most satisfied customers, it becomes convenient for them to pass on information about the service provider to their friends. It is very convenient to send such information via email.
- A company can target opinion leaders in its advertising campaign. Heavy users of a service are good prospects. Corporate clients of repute can also sway opinions in the provider's favour. Celebrities are useful in this context if they are not involved with too many endorsements.
- A service provider encourages potential customers to talk to current customers. Educational institutes find this exercise very useful. Prospective students seek out current students to find facts about the institute. They trust current students to give true information. When current students talk well about the institute, prospective students' inclination to join the institute increases. Opportunities have to be created for current and prospective students to meet. But the effectiveness of this exercise is based on the belief of the potential customers that current customers do not have any interest in projecting a false image of the institute. But when such exercises are doctored, they lose their credibility.

Communication should also be targeted at employees because of their importance in maintaining and creating service quality. Internal communication should define management's expectation from employees, reinforce the need to please the customer and explain the rewards that follow from giving excellent service. External communication that depicts service quality also influences employees if they include employees and show how they take exceptional care of their customers. Care should be taken not to exaggerate promises in promotional material since this may build up unachievable expectations among customers. Such exaggerated promises also demotivate employees and makes them cynical as they know that the company is not in a position to live up to its promises. It is very important that the employees like the way their company is projected to the outside world, so that they feel proud of being a part of it and strive to live up to the promises made in the advertisements.

3.2.3 Price of the Service

Price is an important tool in marketing of service. Since it is often difficult to evaluate a service before purchase, price acts as an indicator of perceived quality. For example, a patient expects a surgeon to charge high fees, otherwise he cannot be good. Price is also an important tool in managing demand. Bars charge higher rates in the evenings when they expect a lot of rush. They charge lower price during day-time expecting some customers, who otherwise would have visited in the evenings, to visit during day-time due to the lower prices. Less number of customers have to be turned away in the evening. Low prices can also attract new customers who cannot afford to or do not want to pay the high prices charged in the evenings. The facility is more evenly utilized throughout the day. Matching demand and supply is critical in services because services cannot be stored. A less utilized facility at some part of the day or year means

lost revenue which cannot be compensated. But the price differential has to be significant to be able to shift customers, as enjoyment of some services is closely related to the time at which they are consumed. The experience of watching a movie in a theatre at the weekend is very different from watching it on a weekday. People would prefer going to a hill-station in summers than at any other time of the year.

Price sensitivity is a key segmentation variable in service sector. Some customers are willing to pay a much higher price than others. Time is often used to segment price sensitive and insensitive customers. Long-distance phone calls are cheaper at some part of the day than others. Some customers may be willing to pay more to get the service early or whenever they want it. It is often debatable if a patient willing to pay more than the normal fees should be allowed access to a doctor before another patient who has been waiting for his turn. But it is slowly being accepted that customers who pay more can have faster access to the service. But the discrimination has to be done in a discreet and subtle manner, especially when both set of customers are in the same place, as it often happens in entertainment parks, where two queues of guests move at different paces toward the rides. The guests who pay more are in the faster moving queue and wait for less time than those who pay less. It is often wise to design facilities and operations in a way that the two sets of customers are not in sight of each other.

Five techniques used when setting fee levels are as follows:

(i) Offset

A company charges low fees for the core service but charges higher prices for other add-on services. A restaurant may charge low price for food but will charge higher prices for drinks. But after a while customers would know the provider's tactics and customers who are primarily interested in having meals would be visiting but customers who want to enjoy their drinks will look for a place which follows the opposite practice. An entertainment park may charge low price for rides on swings but may charge high price for food.

(ii) Inducement

A company charges low fees to attract new customers or to help retain existing customers. Since price is a strong cue for quality in services, low price may make the customers believe that the quality of the service is not good.

(iii) Divisionary

A company charges low basic fees on selected services to develop the image of a provider which offers value for money. The services with low prices should be accessed more often by customers. The price of other services should not be very high as customers will then be able to see the price discrepancy between the services. The low priced services give an image of being low-priced but the very high prices of other services will make the customers suspicious about the true nature of the service facility.

(iv) Guarantee

The company allows the customers to pay the full fee only on achievement of agreed results. Most customers are generous enough to pay for the service that they have already consumed though they may not be fully satisfied with it. They will crib about

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the deficiencies in the service at the time of paying and will be assuaged with polite words. There is not much loss of revenue due to this clause. But inspite of most customers not availing the 'no-payment if not satisfied' option, they feel nice having the option and normally trust such providers to provide good service. Providers who give such guarantees make more efforts to provide fault-free services and their operations become better. They become more alert.

(v) Predatory

The company charges low prices to undercut competition's fees to remove them from the market. They plan to charge higher fees when competitors quit. But the events following a player's price cut does not normally follow this script. Competitors too reduce their price and a few adventurous ones among them even undercut the initiator. The result is low profits for every player in the industry.

3.2.4 Place (Service Location and Channels)

Distribution channels for services are more direct. There is no storage of services. Production and consumption is simultaneous, and hence direct contact between customer and service provider is essential for most services. Growth for many service companies means opening new facilities in new locations, due to simultaneous production and consumption. The evaluation of locations is a critical skill for such services. Expansion often means a multi-point strategy because the whole setup for service production and marketing has to replicated. Success of many service providers has been due to their ability to choose profitable new sites and replicating their operations at the new sites.

Struggling in a hypercompetitive market

Virgin Mobile has teamed up with Tata Teleservices, and offers mobile telephony services using CDMA technology. It has not got many subscribers in the Indian market so far, despite more than a year of existence. Even if Virgin's subscriber base is about one-tenth that of Tata's as claimed by the company, it is only a million customers with a market share of less than 1 per cent. The figure is not good, because more than 125 million customers bought new mobile phone connections since Virgin's entry in India. When Reliance had launched its GSM services, within a period of 1 month, the company got 5 million subscribers. And Bharti Airtel, which is the market leader in the mobile telephony market, got nearly 32 million customers in its fold during the same time period.

It is important to note that Virgin is on the CDMA platform because of Tata Teleservices, which is why its revenues and subscriber base could be low. But the company knew that in India, GSM operators control more than three-fourths of the market because the variety of handsets that can be used for CDMA connections is limited. Virgin handsets (that are made in collaboration with Samsung) range between ₹ 1,400 and ₹ 4,500, and are available in attractive colours. Customers can also use the handsets of other manufacturers.

Moreover, Virgin does not have a pan-India presence. And the mobile telephony market in India is extremely competitive and crowded. Many incumbents have been around for nearly 15 years and they already have more than one fourth of the market.

Virgin however, has always been clear that it is selling to the urban youth in the age group of 15-25 in India, the numbers being approximately 200-215 million. While this proposition may be valid when looked at from the perspective of the country as a whole where the penetration is less than fifty per cent, in markets like Delhi which are

fully saturated, this may not be viable. Virgin was hopeful because 70 per cent of its customer base comprised those who had switched from competitors, and the rest were new users. The Delhi market was saturated, with a penetration rate which was more than 95 per cent when Virgin had entered the market. Even then, Virgin got more subscribers than it hoped.

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In the telecom industry, the average revenue per user (ARPU) is a metric that is used by all telecom operators to gauge the health of their business in terms of how much money the operator is able to get from each customer per month. For Virgin, the ARPU was 30 per cent higher than the industry average. However, this may not be a great number as the average ARPU in India of about ₹ 170-180 is probably the lowest in the world.

Because of its joint venture with Tata Teleservices involving revenue sharing, Virgin did not have to invest huge sums of money required to build a network. The mobile telephony market has already witnessed several price wars among incumbents, wherein tariffs have been reduced and free minutes are given regularly. Virgin has little option but to join the war. In fact, the brand realized very early that Indian users are price conscious. When it first entered the Indian market, the brand's unique proposition was that those who received calls from a Virgin user would be paid for it. That benefit is still available today, but the offer did not increase subscriptions.

Virgin also brought down call rates a few months after its launch. The rates of the basic package were reduced, and special weekend and night packs were introduced by the company. The main target group for the brand was youngsters, and this group extensively used SMS services. Therefore, Virgin introduced special offers, such as one in which only the first three messages were paid for the user, and the rest of the messages were free. Call charges for long distance were reduced as well as research conducted by the company revealed that students who stay away from home contacted their family frequently. Virgin also came up with discounts for speaking to people on the Virgin network, like all other service providers. The key to the re-pricing strategy was that consumers were not expected to commit to a minimum usage, even for SMSs.

Consumers found these pricing schemes attractive. Though Virgin's prices were not the lowest in the market, the packages offered by the brand were quite attractive. Consumers were attracted to the idea of not being forced to pay a minimum amount. Virgin initially thought that youngsters will not be price sensitive, but their target group welcomed a reduction in call rates. The target market's price sensitivity is confirmed by the fact that more than 90 per cent of the company's customers have opted for its pre-paid services, which is close to the industry average. The re-pricing plans helped Virgin garner more subscribers, and increase revenues from existing ones.

Virgin has clearly positioned its brand towards the youth in India. Its target consumers comprise the 15-25 year olds, who are a large demographic group having huge spending power. But any marketer who targets this group needs to be very focused, as virtually every company wants to address this segment. Therefore, it is harder to stand out. Virgin Mobile's budget on marketing communication is only one-tenth of the budget of the big mobile operators. It sticks to youth channels such as MTV or Channel V and restricts hoardings to locations near colleges in order to optimize its budget spend. Customer perceptions regarding Virgin are that its attributes are not well-defined, but the brand is young and energetic. The pricing alone would have been enough to bring in subscribers, if awareness was very high.

Virgin plans to continue to reach college campuses to reach its prospective customers directly, and reduce expenditure on mass media. Virgin wants members of its target audience to become its brand ambassadors. It also asks students to sell the Virgin T-

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shirts, and those students will be given counseling sessions in return for this. Virgin understands the disparity in income patterns across India, and knows that not all youth belong to affluent families. Therefore, the company wants to help youngsters to achieve their goals in life by advising them in career planning and even organizing workshops to hone their presentation and communication skills. Virgin has installed television sets in college canteens. The brand also encourages students to get involved in its communication campaign. This creates buzz for the brand.

Though creating buzz is important, Virgin needs to increase its subscriber base. Already, the growth momentum in the urban areas is slowing as there are large, well-entrenched competitors. Besides, there are new telecom companies that are launching their services. But Virgin feels that as MNP (mobile number portability) becomes a reality in India, many customers will switch to Virgin. This needs to be seen.

New technologies permit service companies to provide services without customers coming to their facility. Information and financial services are leading this revolution. A customer can carry out transactions with a bank through ATMs, Internet, or the phone. Information products can be widely distributed through Internet. But there are many other services where contact between the provider and the customer is still essential. But service companies should be looking for an alternative to personal contact with customers for at least a part of the service. Should education be provided solely through teacher-student interaction in a classroom or can at least a few of these sessions be substituted by a recorded lecture? Should a patient visit a doctor each time he feels unwell? Or can he have a monitoring system at his house which can transmit information about his body's functioning to the hospital, from where a doctor will prescribe medicines over the phone? It is not being suggested that all this is possible. But service companies should be experimenting with various alternatives to deliver services. Personal contact between a service provider and a customer is costly, cumbersome and full of interpersonal complications. If it can be avoided without sacrificing customer satisfaction, it should be.

3.2.5 People

Service quality is inseparable from quality of service providers. The company has to set standards to improve quality of service provided by employees and monitor their performance. Without training and control, employees tend to be variable in their performance leading to variable service quality. Training is crucial so that employees understand the appropriate norms of behaviour. A service provider trains its employees to identify and categorize different personality types of customers, and to modify their behaviour accordingly. Employees need to know how much discretion they have to talk informally to customers. They also need to control their own behaviour so that they are not intrusive, noisy or immature. They need to adopt a customer-first attitude rather than putting their own convenience and enjoyment before those of their customers.

Employees of service organizations have to be adept in multiple roles. They have to be good in their primary task and they have to be good in interpersonal skills. They also should have empathy to judge the service requirement and mood of the customer, and modify their service and behaviour accordingly. A service professional has to have the combined skills of an operations man, a marketer and a human resource manager. It is not easy to find employees with such diverse skills.

The company has to examine the role played by customers in service environment and seek to eliminate harmful interactions. The enjoyment of a restaurant meal or air travel will depend upon actions of other customers as well. The service facility's marketing mix should be such that it attracts customers desiring similar benefits from the provider. The target market has to be very homogeneous and the positioning very precise.

3.2.6 Physical Evidence

Physical evidence is about the environment in which the service is delivered and it includes any tangible goods that facilitate the performance and communication of the service. Customers look for cues to have an idea about the likely quality of a service by inspecting the tangible evidence. Prospective customers may peep through a restaurant window to check the appearance of the waiters, the décor and the furnishings. The layout of a service operation has to balance the operational need for efficiency and marketing desire for effectively serving the customer.

Customers do not know what is in store for them when they decide to consume a service as they cannot examine it before using it. The whole facility is important to the customer as a source for cues, by which he will try to gauge the quality of the service he is going to consume. Service providers should research the concerns of the customer regarding the service and also find out the cues that the customer will be searching to get an idea of that part of the service which is of concern to him. The service provider should strengthen those cues.

3.2.7 Process

These are the procedures, mechanisms and flow of activities by which a service is delivered to customers. Self service cafeteria is very different from a restaurant. The company needs to research the requirements of its customers and set its processes accordingly so that the required service is delivered. Since requirements of customers vary widely, processes cannot be standardized. But if a process is allowed too much flexibility, the efficiency of the facility goes down. Therefore customer requirements should not be allowed to vary widely. Through targeting the smaller segment of customers, variations in their requirements can be controlled.

The process is important because in some services, they are visible to customers. Sometimes the effectiveness of a process can be compromised in the effort to make it look good to the customer. Some patients feel good when they are extensively examined by the doctor though it may not be necessary. Some processes in personal grooming and hair care saloons are not really required but service professionals have to carry them out because customers have come to expect them. Classroom lectures are largely ineffective but students will feel that they have not been taught at all if such lectures are not held. The idea is that customers have to be educated about the need or irrelevance of certain processes. A process should be employed only when it is required to provide a service and not because customers have come to expect it.

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Physical evidence: The environment in which the service is delivered and it includes any tangible goods that facilitate the performance and communication of the service

Process: These are the procedures, mechanisms and flow of activities by which a service is delivered to customers

Check Your Progress

1. Name the 7Ps of the marketing mix.
2. Enumerate the five techniques used when setting price levels.
3. What is the concept of physical evidence with reference to the marketing mix?
4. What is the function of process in services marketing?
5. What is the meaning of physical evidence in the marketing of services?

3.3 DEVELOPING A MARKETING MIX STRATEGY

3.3.1 Marketing Strategy Formulation

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Failures and problems occur in the performance of simplest of services. This happens because the activities and processes that constitute parts of the service are not strictly defined, nor are their sequences and the people who have to perform the tasks. This is because services are considered impromptu in nature as their contents have to be changed according to the requirement of the customer who has walked in. There is some truth in this assertion but it is not impossible to configure all possible variants of customers' requirement for a particular service and create a blueprint for each one of them. A provider need not have to dig into his innovativeness each time a customer requires slightly different variants of the service. The standardization of methods will bring about predictability in the output of services. It is time for service companies to expect their designers to feature in customer's unpredictability and provide for them when they are designing blueprints for a particular service.

Service failures can have disastrous results and service providers should not be expected to exercise on-time judgments to retrieve the situation for the company. Service designers have to be rigorous and thorough enough to locate all points and situations in which service failures may occur, and design a fool-proof service delivery mechanism. This exercise will save time, money and effort which is otherwise wasted in correction of services rendered and placation of aggrieved customers.

The interaction between the customer and the service provider is left to the personal demeanour of the provider, the good mindedness of the customer and to good providence. This can prove fatal as all the three elements mentioned above have a long history of fickleness and it will be difficult to find occasions when all three will play out as expected. It is important that the designer considers the interaction between the provider and customer as important and has a blueprint for it with due consideration for occasional aberrant behaviour of the customer.

Service delivery cannot be left to chance, and designers of services have to take responsibility for a fool proof service delivery mechanism as their counterparts in product markets are doing.

Customer engagement through employee engagement

It is easy to measure quality levels of manufacturing processes and units, but it is extremely difficult to do so for non-manufacturing processes and units. It is easy to measure the fuel efficiency of a car, but it is extremely difficult to find out if the salesmen at the dealers' premises are doing a good job of selling the car. But it is essential that a company is able to measure and manage quality in all types of business environments. In manufacturing, value is created by repeatedly combining ingredients with predictable properties. For example, millions of identical cars are manufactured by assembling the same components in the same way for each car. In such predictable and repetitive environments, quality improvement techniques such as six sigma are very useful. In sales and service organizations and in many professional service organizations, value is created when an employee interacts with a customer. Techniques like six sigma are not useful in environments where each customer-employee interaction is unique. A new

technique called human six sigma has been devised to reduce variability and improve effectiveness in employee-customer interactions.

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The basic premise of six sigma quality methodologies in manufacturing is that there is variability in each cycle of a process and hence, in each output from the process. The effort is to reduce variability of processes and outputs. Experiments are conducted to identify the parameters whose variability cause, variations. Steps are taken to reduce the variability in parameters so that there is minimal variation in processes and their outputs.

Customers are not rational beings who evaluate their interactions with a company using rigorous, analytical standards. If customers were completely rational in evaluating companies, then flawless execution of processes would have resulted in satisfied, profitable, lifelong customers. People base their decisions on a complex mix of emotion and reason. Emotions may even play a greater role than rational analysis in consumer decision making process.

Highly satisfied customers of a company belong to two distinct groups, those who have a strong emotional connection to the company and those who do not. Emotionally satisfied customers buy more from the company than rationally satisfied customers though they are equally satisfied. This happens because the brains of customers who have strong levels of emotional attachment to a company are significantly more active while they are thinking about the company. The increased activity is concentrated in parts of the brain related to emotion, emotional-cognitive processing and memory. The enhanced brain activity is company specific, i.e., customers who are emotionally attached to a company, but not to another, will not show the same levels of neural activity when thinking about the company that he is not emotionally attached to. There is also a strong relationship between emotional attachment to a company and self-reported share of spending on the company's products. In fact, consumer behaviour, in terms like attrition, frequency of use, total revenue and total spending of rationally satisfied customers and dissatisfied customers are almost identical.

Therefore, measurement and management of the quality of the employee-customer interaction needs to take customers' emotions into consideration. The four dimensions of customers' emotional engagement with a company are confidence, integrity, pride and passion. A customer is confident about a company if he believes that the company will always deliver its promises and that its people are competent. The customer will trust the integrity of a company if the company treats him the way he should be treated and if something goes wrong, the customer trusts the company to fix it fast. The customer is proud of the company if he has a sense of positive identification with the company. The customer is passionate about a company when he finds the company irreplaceable in his life and a perfect fit for him. When a customer is emotionally engaged with a company, he is more valuable to the company in terms of share of spending, profitability and revenue. When more of a company's customers are emotionally engaged with it, its financial performance improves.

Every interaction an employee has with a customer is an opportunity to build customers' emotional engagement. But most employees are not energized and committed enough. They come to work and do what is expected. Such disengaged employees are not likely to exert the extra effort to please customers. In fact, they routinely destroy customer relationships. Employees who are positively engaged are able to engage the customers they serve.

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There is large variability in customer experience from location to location. The extensive range of local performance suggests that there is no single culture or unified brand. Some customers are delighted with a company's front-line staff, whereas some others are perpetually dissatisfied with them. A particular outlet of a retailing chain may be providing excellent shopping experience, whereas another outlet may not be good at all. High-level averages hide variations in performance from one location to another, and the company does not try to improve performance at locations where the customers are dissatisfied with the company's performance. Performance across locations follows a normal distribution, which means that local variability is largely unmanaged. Unmanaged variability in the quality of the customer experience is dangerous because customer experiences are bad at some locations, even though average measure of customer experience is high.

To base a company's efforts on average measure of customer experience is like a doctor prescribing treatment to a patient based not on his own blood pressure but on the average blood pressure of people in his town. A company has to improve its performance at the level and the location where the employee-customer interaction is not good. And the way to go about doing this is by reducing the variability in 'people processes,' i.e., ensuring that the right people are engaged in implementing the company's customer processes at a location, and they are implementing them in the right way.

Both customer and employee engagement are important, i.e., employees should be committed and energized, and customers should be emotionally attached to the company. When both employee and customer engagement levels are high, the financial performance of the company is very good, but when only one of them is high, the financial performance is low. Those companies that engage employees without engaging customers have become too inwardly focused and have lost direction. Those companies that engage customers without engaging employees can continue to perform well for some time, but in the long run, customer engagement will erode. Customer and employee engagement augment each other at the local level and there is accelerated improvement in local performance.

Since employee engagement and customer engagement are connected and affect performance, they need to be managed centrally, at the same time that they are managed locally. This is difficult. Data about customers is with marketing department, data about employee well-being is with human resources department, and data about financial performance is with finance department. A true picture of the health of the employee-customer interactions will be revealed only when all these data are brought together on a single platform. Therefore, the responsibility for measuring and monitoring the health of the employee-customer relationship must reside within a single organizational structure, with a senior executive heading it. The executive should have the authority to initiate and manage change.

The local manager immensely influences local group performance. Employees join an organization for a variety of reasons but their working lives revolve around local environments that can either nourish them and foster their learning, or can leave them totally disengaged and dispirited. It is the responsibility of the local manager to ensure that employees working for him feel energized and committed. The only way to have high performance at every location is to have energized and committed employees at every location.

Service personnel interact with customers extensively. It is very important that service personnel are not worried about other matters of home and office, as it will affect their performance adversely. The employer should be proactive in taking on the responsibility of managing the life and career of its service personnel. Dissatisfied or unhappy service personnel can never delight a customer. So before a company decides to please its customers, it should have pleased its employees.

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An empowered employee is able to do whatever he should to please a customer, but there is no need for special programmes to promote empowerment among service personnel. The attitude of their superiors towards their initiatives and towards failures of some of these initiatives in the past, puts them in a good position to know whether they are trusted are not. In fact, any employee who has spent a reasonable amount of time in an organization knows instinctively how much he is trusted and for what. Sadly for managers, as far as placing trust on employees goes, it is their actions which are going to convey their intentions and not words and slogans.

Customer-induced variability in services

Customers are often an integral part of service delivery process. Though customers judge the quality of their experience by how much of the variability they introduce is accommodated, companies have to take deliberate steps to manage customer-introduced variability. Customer-introduced variability can take five forms.

- Arrival variability: All customers do not want the service at the same time or at times convenient for the company. A simple solution is to require customers to take appointments, but in many circumstances customers themselves cannot foresee or delay their needs.
- Request variability: Customers requirements can vary widely and a service provider needs to have a flexible operation system, which essentially means having more variety of equipments and employees with diverse skills.
- Capability variability: Some customers perform tasks easily and others require hand-holding. Capability variability becomes important when customers are active participants in the production and delivery of a service.
- Effort variability: When customers perform a role in a service delivery process, they differ in terms of the effort they put in performing the role.
- Subjective preference variability: Customers vary in their opinions about what it means to be treated well in a service environment.

Companies treat customer-introduced variability in two ways (i) The company accommodates customer-introduced variability (ii) The company reduces customer-introduced variability.

A classical reduction strategy is the restaurant menu. Menu restricts request variability. Menu puts a limit on what would otherwise be an infinite number of potential orders, and therefore enables a restaurant to provide meals of consistent quality at reasonable cost. But, customers may want variations in preparation and ingredients, and when restaurants do not accommodate special orders, they reduce the complexity of the operating environment but may also reduce service quality. Companies that use reduction strategies attract price-conscious customers who are willing to trade off service experience for low prices. For example, people who choose discount airlines reduce their collective variability by conforming to a company's operation needs, even at the risk of an inferior service experience.

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Accommodation often involves asking employees to compensate for the variations among customers. Employees learn to diagnose customer types, and make on-the-fly adaptations to suit their preferences, protecting the customers from having to make many adjustments of their own. It costs more to hire, train and keep employees who can compensate for customers, therefore the success of an accommodation strategy depends on a company's ability to persuade customers to pay more to cover the added experience.

But, managing customer-introduced variability should not boil down to making trade-offs between cost and quality. Companies can accommodate customer-introduced variability without raising its costs by hiring low cost labour, automating tasks and creating self-service. Similarly, companies can reduce customer-introduced variability without compromising service quality by creating complementary demand to smooth arrivals, and targeting customers on the basis of their requirements, capability, motivation and subjective preferences.

Innovation in services

Economies are increasingly becoming dependent on services. There is an urgent need to innovate new services and new service delivery mechanisms. But innovation processes remain oriented towards products. There are well-tested, scientific methods for developing and refining manufactured products but most of them are not applicable to services. There are definite difficulties in applying traditional methods of research and development to services. A service often exists only in the moment of delivery to its customers, which is difficult to isolate in traditional laboratories. And since many services are tailored to individual buyers at the point of purchase, they cannot be tested through large samples.

Because of these constraints, experiments with new services are most useful when they are conducted live, with real customers engaged in real transactions. But live experiments magnify the costs of failure. An experiment that fails may harm relationships with customers and even the brand may suffer if experiments fail repeatedly, putting the customers at inconvenience often. Therefore live experiments will have to be conducted with a cautious approach.

The service provider like, say a bank or a fast food joint, will have to clearly think through their ideas for a new service or delivery mechanism before they can stage it live. It will be more like a dress rehearsals before a stage show. People who will ultimately carry out the steps will have to be involved in the rehearsals with the aids and equipments that they will use. All the bugs that can be possibly found during the rehearsals will have to be diligently removed. It is important that the provider does not experiment with very radical ideas all at once, for their chances of failure are higher. It will be difficult to think through a radical idea and remove all the bugs. The improvements should be planned and experimented incrementally and should be built on past successes and learnings instead of trying something abstract with customers. This is a distinct departure from experiments in laboratories where abstract ideas can be tested without much fear of failure. But failure has to be feared when experiments are being conducted with customers participating in it in their normal way. The service provider will also have to identify a few or at least one branch or joint where the experiment will be carried out while the rest of the branches or joints act as controls. The identified branch or the joint will have to be equipped with the equipments and aids needed to carry out the experiment.

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The personnel who will conduct the experiments will have to be motivated, because not only do they have to learn the new method of working, they also have to keep on contributing to the normal functioning of the service facility. They have to be adequately compensated or help should be arranged for them if they are not able to carry out their normal duties. The experiments will have to be conducted for long periods of time, say for two to three months, before any meaningful conclusion can be drawn from them. Also, in a real setting it is not possible to isolate reasons of a consequence unless repeated observations are made. So when an experiment is conducted successfully over a period of say, two to three months, it can be justifiably believed that the good results have come from the changes made in the service rather than from so many other uncontrollable variables that are impinging on operations in a live situation.

A successful experiment will have to be persisted with because customers would have liked it, would have become used to it and would expect it. Therefore the service provider should also have deliberated upon about rolling out the new service if it is successful in the experiments. Unless drastic changes have to be made during the experiment, thus raising costs or causing other inconveniences, making it non-feasible to implement the new service, experiments with a new service should start only when the provider has the intention and capability to eventually implement it. Customers would be enraged if they knew they were being experimented upon.

Conducting live experiments with customers may be risky and cumbersome but if a predominantly service economy has to progress, it may become inevitable.

3.3.2 Resource Allocation and Monitoring

Operating decisions are concerned with the current operations and daily activities of an organization which is not the case for strategic decisions. One of the activities requiring strategic decisions is resource allocation monitoring, requiring the organization which provides services to plan their long-term activities on the mobilization of substantial resources. These resources need to be attained from the company's surplus in the form of man (personnel), capital (money), machine (plant) and material (raw material).

Resource allocation

Decisions pertaining to resource allocation have a great amount of significance in the implementation of strategies. In an organization providing only one kind of service, the allocation of resources includes an appraisal of the need for resources in different functional departments. However, in an organization with multiple divisions, the resource requirement is assessed for different product divisions or Strategic business units (SBUs). The resources which need to be allocated in an organization consist of four categories:

1. Personnel
2. Capital
3. Materials, services and supplies
4. Facilities and equipments

These four categories of resources are the instruments used by an organization for the production of services and goods of value by the process of conversion. An organization's success is decided by the quantity and quality of the resources available

to them, the policy of resource conversion (the range of activities to be pursued and the markets to be serviced) as well as the decisions regarding resource allocation.

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Therefore, planning for resources is a significant aspect of strategic planning. The first part of planning resources is deciding on the type and quantity of each resource required for the implementation of policies and actions in the strategy chosen by the organization, along with the availability of each resource and its quantity during the stage of planning. The second part consists of deciding on the amount of additional resources required and the plan for fulfilling that requirement. It also determines the incorporation of resource allocation and the expected availability in synchronization with the company requirements and operative strategies.

Approaches to resource allocation

Conceptual models like the stop-light and directional policy matrix as well as the growth-share matrix for strategic choice help in the allocation of resources for multi-divisional organizations. The main concept behind the growth-share matrix is that business segments with high market or low growth positions need resources which maintain the current share and shift the cash flow to the low market and high growth segment. Therefore, the allocation of resources have various considerations such as business strengths, competitive abilities and market share on one hand and industry attractiveness with a growth prospect of business segments on the other.

Another approach to resource allocation is the product life-cycle system of resource budgeting which maintains that their allocation needs to be symmetrical with the stages of the life-cycle of products. Resources should differ at various stages of the product life-cycle since strategic choice is affected by any changes in its stages. Zero-based budgeting implies that allocation of resources needs to depend on budget requests right from scratch and not from any previous experience, which should be adopted in lieu of the retrenchment strategies assigned to a service division.

Resource monitoring

The main objective of resource monitoring and control is to ensure the implementation of the strategy and assessment of the targets achieved in accordance with the plan. In strategic monitoring, the activities and their outcome are decisively appraised in order to provide directions for future action. Monitoring of operations is based on the optimum utilization of the allocated resources as well as deciding on the performance of the personnel and the action of the organization. Strategic control, apart from monitoring performance and utilization of resources, involves finding or creating new methods and helping employees to focus on significant problems pertaining to the organization.

3.3.3 Marketing Planning and Services

The amount of planning which goes into developing a successful marketing plan for providing services requires a great deal of research and expertise from an organization and the marketing personnel. A functional marketing plan should consider all aspects within and outside the organization to achieve their objectives.

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Creating a marketing plan

An organization selling a service or product to consumers needs a stringent marketing plan. The marketing plan might just contain a few pages or hundreds of pages depending upon the size of the organization and the extent of the market segment. It may be noted that even in the most successful organizations, the basic document containing the marketing plan must be concise and should state the most important and inevitable strategies planned to be undertaken by them. The basic elements which should be covered by a marketing plan are:

- How to get started on the venture
- What is the function of a marketing plan
- How to construct and structure a marketing plan with key headings and the material under each heading

Function of a marketing plan

A marketing plan is developed as a part of the planning process for marketing. The main function of a marketing planning process is to provide structure to decision-making, which ends with a written plan prepared every year or before a new marketing venture requiring an investment of internal resources and budgeting. One of the important functions of a marketing plan is to gather and record the information within the organization in a document, charting a way towards successfully achieving business objectives. A marketing plan especially provides answers the following questions:

- Who are your customers?
- What business objectives do you expect to achieve
- What business and economic environment are you experiencing?
- What will be done by whom and when will it be done?
- How will you measure your progress to learn from your experience?
- What kind of problems or opportunities are you facing?
- How would you communicate about your service to your competitors?
- Which service you are selling?
- Why should they prefer you over your competitors?

Given below are some of the reasons for creating a marketing plan:

- To provide a plan of action for activities related to marketing
- To communicate the priorities of marketing to the other parts of the organization
- To request for the marketing budget
- To attain a buy-in from other parts of the organization
- To provide a greater discipline in the process of marketing
- To request for internal resources for the marketing process
- To be able to share marketing objectives with the senior management
- To provide a strategic direction for a business unit or an organization
- To provide a formal record of the decisions related to marketing

Check Your Progress

6. What is the basic premise of the six sigma quality methodology?
7. Name the five forms of customer induced variability.
8. Name the four categories of resources which need to be allocated in an organization.
9. What is the main objective of resource monitoring and control?

3.4 SUMMARY

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Some of the important concepts discussed in this unit are:

- The traditional 4Ps of marketing (product, place, price and promotion) have been extended to 7Ps with the addition of people, process and physical evidence due to a high degree of direct contact between the organization and the customer as well as the highly visible nature of the service production process.
- Physical products can be inspected and tried before their purchase but pure services are intangible. Therefore, the three elements of the extended marketing mix—people, physical evidence and processes provide useful information about the quality of the service to the customer, and are crucial in influencing the customers' perception of service quality.
- Sales people should develop lists of satisfied customers which can used in reference selling since there is a high risk inherent in buying services. Word-of-mouth publicity is important for their success due to the experimental and experiential nature of services.
- Price of a service often acts as an indicator of perceived quality since it is difficult to evaluate a service before its purchase. Offset, inducement, divisionary, guarantee and predatory are the five techniques used for setting price levels in the marketing of services.
- The channel of distribution used in services is more direct than physical goods and the production and consumption of services is a simultaneous process since services cannot be stored.
- The quality of both the service and service providers is inseparable. An organization has to set the standards for quality improvement of services by the personnel and monitor their performance.
- The physical evidence denotes the physical environment in which the service is delivered including any tangible goods that make the performance and communication of the service easier.
- The process includes procedures, mechanisms and the flow of activities through which services are delivered to customers. An organization should research the customer requirements and set their processes so that the required service can be delivered.
- Services are impromptu in nature and their contents need to be changed according to the requirement of the customer, which is why a standardization of methods is adopted in order to bring about some predictability in the output of services. For this purpose, the formulation of a marketing strategy is very significant and inevitable.
- In order to successfully market their services, the personnel within the organization have to engage key prospects and their customers on a personal basis, manage and incorporate customer induced variability in services and bring about innovation in the form of new services and new service delivery mechanisms.

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- The main strategic decision within an organization includes resource allocation monitoring, requiring the organization which provides services to plan their long-term activities on the mobilization of substantial resources. These resources need to be attained from the company's surplus in the form of man (personnel), capital (money), machine (plant) and material (raw material).
- A marketing plan is developed as a part of the planning process for marketing and its main function is to provide structure to decision-making and to gather and record the information within the organization in a document, charting a way towards successfully achieving business objectives.

3.5 ANSWERS TO 'CHECK YOUR PROGRESS'

1. The 7Ps of marketing include the product, promotion, price, place, people, physical evidence and process.
2. The five techniques used when setting price levels are – offset, inducement, divisionary, guarantee and predatory.
3. The physical evidence is about the environment in which the service is delivered and it includes any tangible goods that facilitate the performance and communication of the service.
4. Process refers to the procedures, mechanisms ad flow of activities by which a service is delivered to customers.
5. Physical evidence is the environment in which the service is delivered and it includes any tangible goods that facilitate the performance and communication of the service.
6. The basic premise of six sigma quality methodologies in manufacturing is that there is variability in each cycle of a process and hence, in each output from the process.
7. The five forms of customer induced variability are – arrival variability, request variability, capacity variability, effort variability and subjective preference variability.
8. The four categories of resources which need to be allocated in an organization are personnel, capital, facilities and equipments and materials, services and supplies.
9. The main objective of resource monitoring and control is to ensure the implementation of the strategy and assessment of the targets achieved in accordance with the plan.

3.6 QUESTIONS AND EXERCISES

Short-Answer Questions

1. Which five techniques used for setting price levels in services?
2. How is customer engagement achieved through employee engagement?

3. What are the five forms of customer-induced variability?
4. What are some of the reasons for creating a marketing plan?
5. How is a marketing plan created?

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Long-Answer Questions

1. What is the importance of promotion in services marketing? Explain some of the approaches a company can follow for personal promotion.
2. How is price an important tool in marketing of services?
3. Explain in detail the importance of the new 3Ps in services marketing.
4. How is marketing strategy formulated? Discuss.
5. Explain the significance of innovation of services.
6. Examine how resources are allocated and monitored within an organization?
7. What is the function of a marketing plan? Explain with suitable references.

UNIT 4 CUSTOMER-FOCUSED SERVICES

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Structure

4.0 INTRODUCTION

An organization offering services to customers needs to pay attention to the features, style and range of its services to gain a competitive edge in the market by meeting customer expectation efficiently. A service needs to be renewed and altered according to the altering trends and customer demands in order to maintain its position in the market. In order to meet customer demands, it is necessary to understand the behaviour and choice of buyers and develop strategies for building customer relationships.

Sometimes, it is difficult for marketers to assess and manage customer demands due to lack of optimum capacity of services available with them. Therefore, it is the duty of a service provider to manage the service capacity by incorporating a systematized queuing and reservation system. Maintaining service quality is also an important facet to be considered by service providers, since the purchase decision of a customer relies on the quality of the service provided to them. It is greatly significant to research and incorporate various quantitative and qualitative techniques as well as customer-focused strategic concepts to achieve the desired quality of services.

Another important factor to be considered is that of customer acquisition and their retention for the services provided by the concerned organization. For the acquisition of customers, the service provider needs to assess a customer's brand

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choice and analyse the factors and criteria for that choice. The story does not end with just the acquisition of customers since after acquiring them, the organization needs to retain them for future services as well. Customer retention is the unending process of meeting the needs and expectations of customers on a regular basis so as to not lose them to the competition. For this purpose, the role of customer relationship management is very important and indispensible by the organization, since they are responsible for constant follow-up with the customers and recording their feedback for future improvement of services. Therefore, providing customer-focused services by the organization is a very organized and systematized task requiring a great deal of customer knowledge and expertise in dealing with them.

4.1 UNIT OBJECTIVES

After going through this unit, you should be able to:

- Understand the offer, levels, strategies, development and life-cycle of a service product
- Examine customer expectations of service marketing, service product and service quality
- Analyse the techniques and research used for improving service quality
- Understand how to develop, organize and implement quality service standards
- Examine the process of converting customers towards one's services
- Analyse the various factors influencing brand choice
- Understand the inputs, requisites, process and factor for effective customer acquisition
- Examine and discuss the concept, stages and sequences in customer retention
- Discuss ways to meet and satisfy customer expectations
- Understand the concept of relationship marketing in the marketing of services

4.2 SERVICE PRODUCT

The features, design, styling and ranges of the product help the organization in gaining a competitive advantage in meeting its customers' needs more effectively than its competitors. Product decisions form just one set of decisions that an organization makes in order to satisfy customer needs. They must be related to the decisions vis-à-vis the other components of the marketing mix so that a coherent marketing position can be given for a service.

The traditional marketing mix formulation which has been applied to goods may not be suitable to services marketing.

4.2.1 The Service Offer

Tangible goods as well as the comparatively **intangible** services are both described by the term product. Therefore, products can be seen as a combination of **intangible** and tangible attributes that include psychological, social or functional benefits or utilities.

A products may be goods, services, ideas or a combination of all these. Four categories of product offers are (i) Pure tangibles (ii) Tangibles with accompanying services (iii) Major services with accompanying minor goods (iv) Pure services.

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The majority of products generally combine services and goods. Support goods refer to those goods that provide the tangible element of services and assist in the actual provision of the service (e.g., textbooks). Facilitating goods are those that must necessarily exist for the provision of a service (e.g., a car for a car-hire service). It is not the product that is bought by the customer, but the benefit that is offered by it.

The service concept consists of three elements:

(i) **Physical items:** Any tangible element that performs a facilitating or supporting function (e.g. food and beverages served in restaurants).

(ii) **Sensual benefits:** The benefits that the five senses define (e.g., taste, aroma).

(iii) **Psychological benefits:** The benefits that cannot be defined clearly or determined subjectively by customers.

It is possible to distinguish between goods offers and service offers in terms of their inseparable nature. It is impossible to separate a service from the person providing a service, or from the place where it is being provided. This leads to the simultaneous production and consumption of services and consequently a high level of interaction between the buyer and the supplier.

Services cannot be resold and value can be added only at one level. Organization/ Client interface and user participation are critical elements influencing the consumer's perception of a service product.

Analysis of service offer

Three distinct levels can be identified for an individual product:

(i) **Core product level:** The underlying requirement gratified by a product (e.g., transport).

(ii) **Tangible product level:** Making the core product available to the consumer in any tangible form, expressed in terms of product features, styling etc.

(iii) **Augmented product level:** Besides the tangible product, certain benefits and services are added for satisfying the supplementary requirements of the consumer and/or for differentiating the company's product from competitive offerings. A number of such supplementary features take the form of services.

The core service level

The core service level is the substantive service level and is the essential function of a service. As far as the fundamental level of a company's offer is concerned, there isn't much distinction between goods and services. All the wants and needs of customers are **intangible** in nature. It is necessary to develop, produce and manage the offer keeping in mind the benefits of consumers so that their perception of the company with respect to gratifying their wants and needs is positive.

Thus, it is essential to understand the wants and needs of customers to arrive at some level of perceptual congruence between the company and the service users.

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This requires data of behavioural nature which allows an understanding of the benefits a customer derives from a service. This highlights the importance of appropriate marketing research, particularly quantitative research and its attempts to measure consumers' perceptions, benefits and attitudes. Marketing research for services should place greater emphasis on customer perceptions of the service itself.

The secondary service level

The secondary level of service offering comprises both the augmented and the tangible product levels. At the augmented level, supplementary benefits are offered by service suppliers that surpass the tangible evidence. This is carried out for meeting the supplementary customer wants and/or for differentiating the product from rival offerings. However, there is an absence of a tangible level of service for defining augmented services. A number of the components that are usually seen as parts of the augmented product have to do with the manner of distributing the product, for example, availability of credit, deliver, installation, etc. Intangibility means that the consumer may not be able to experience the service before it is purchased. Services can be mentally **intangible**, that is, they are difficult concepts to grasp.

As the weight of the **intangible** components in an entity increases, the deviation from the approach to marketing goods also increases. Knowledge of goods and knowledge of services cannot be acquired in a similar manner. Customers of physical goods may gain knowledge of their products by means of physically examining the product and/or by measuring it quantitatively. Users must experientially define service reality, and numerous adaptations of this reality may exist in the case of services.

Both the **intangible** and the tangible components are combined by the secondary level of the service offer so that the customers can realize the core benefits. But the articulation of the tangible aspects is easier than the production and display of the **intangibles**. It is difficult to control the **intangible** elements. Hence, service managers emphasize the controllable, that is, the tangible aspects instead of the more difficult **intangible** elements. The requirement for tangible evidence increases with the intangibility of the service. Due to the inseparable nature of production and consumption, it is the customer rather than the service provider who provides certain components of the secondary service level. For instance, a student acquainting himself with the subject prior to attending a seminar.

Principal elements of secondary level are:

(i) **Feature**: In the tangible product, features represent specific components of a product that could be added or subtracted without changing its essential characteristics. Features can be added or subtracted to the product so that an organization produces a range of products that appeal to a variety of different market segments, each with the same core needs but with each segment requiring marginally different products to satisfy differing secondary needs. Particular bundles of tangibles and **intangibles** comprise the service product representing different service forms.

(ii) **Styling**: This implies giving the product a distinctive feel or look. A broader definition of style comprises an external manner, mode or approach rather than mere physical quality. In services, the customer gains the sensual benefits. The relationship between the customer and service provider is important, and

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distinctive style can be developed. The style of a service is a result of the combination of features including tangible decor and the **intangible** manner in which front line staff interact with customer.

(iii) **Packaging**: The **intangible** nature of services prevents them being packaged in the traditional sense of providing physical wrapping which can both protect the product and help to develop a distinctive identify. Service packaging can refer to the way in which tangible and **intangible** elements are bundled together to provide a comprehensive service offer.

(iv) **Branding**: The objective behind branding is to categorize a product as belonging to a specific service organization and to facilitate the differentiation of its products from rival offerings. The service offering itself is less likely to be branded. It is more likely that the branding process would concentrate on the corporate image of the service provider. But sometimes the service itself may be branded or there is a hierarchy of brands and sub-brands representing both corporate and service specific identity. Often, service specific branding has a tangible basis (a Big Mac offered by McDonalds)

(v) **Physical evidence**: Service marketers differentiate their services from competition by adding tangible features e.g., distinctive design of brochures, staff uniforms.

(vi) **Service delivery**: Service marketers use the concept of accessibility rather than seeing service provision in terms of distribution/delivery as with goods. A number of resources affect this accessibility for example human resources, machines, and buildings. The service itself may be **intangible** but these resources make the delivery of service a reality.

(vii) **Process**: Most services are concerned with the production process as much as with any final outcome. The focus of the service design must be on the processes and the manner in which interaction takes place between the customers and the service personnel in the course of this process.

(viii) **People**: People involved in the process of delivering a service can be critical in defining that service and customers' perception of it. Personnel become an important element of the service offering and management must define the role expectations of employers and support this with training wherever necessary.

In addition to managing the interaction between customers and the service provider's own personnel, other consumers who use or buy the service many influence the principles of the service where it is consumed in public. Service providers employ methods to control the behaviour of their customers where they are likely to influence other customers' enjoyment or image of service.

(ix) **Quality**: Customers may judge not so much the quality of an individual service offering but rather the quality of the service provider. In goods marketing, quality can be understood as the level of performance of a product. In services, quality is the perceived level of performance of a service, but measuring it can be much more difficult than for goods. Not only can it be difficult to measure quality parameters, it can also be difficult to identify which quality factors are important to customers. The **intangible** nature of services quality standards is reflected in the difficulty that service companies have in designing quality standards which will be readily accepted by potential customers.

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Customer expectations form an important element of quality. A service that fails to meet the expectations of one customer may be considered by him to be of poor quality, while another customer receiving an identical service but who did not hold such high expectations may consider the service to be of high quality. An irregular traveller who has won a flight on Concorde may consider all aspects of the service experience to exceed his limited expectations. On the other hand, a regular business traveller with relatively exacting expectations may rate the service as being of low quality on account of niggling problems.

Superior quality level is being seen as a way of gaining a competitive advantage. It is important to understand the processes by which consumers evaluate quality. This will help in determining the specification of quality levels to be incorporated into the company's offering; as well as communicating to potential customers about the service level on offer. Tangible goods can be designed and produced to predetermined standards, and because such standards can be quantified, it is easy to monitor and maintain them. With **intangible** services, quantification of standards is difficult, and organizations find it difficult to monitor and maintain consistently high standards of services. The intangibility and inseparability of most services results in a series of unique buyer/seller exchanges with no two services being provided in exactly the same way. To reduce the problem of uniqueness, many service providers' industrialise their output by offering a limited range of machine-assisted services with lower variability in output.

Customer perception of service attributes

It is important to understand the process by which customers evaluate the total service offering. Customers initially assess the core service for its ability to satisfy their substantive needs for a service such as need for sense of control, status which are translated into number of service attributes. These attributes may be security of the customer and his property, consistency, attitude, completeness or extent of service range, environment, availability and timing i.e. length of time required for, and pace of performance of the service. Service providers compete by producing service offerings that contain a permutation of these attributes that meets customers' secondary needs better than their competitors.

Faced with an array of attributes, an understanding of the processes by which customers evaluate each bundle of attributes is required. Judgements can be made in three ways:

(i) A consumer may make a judgement based on an overpowering attribute which is of greater importance in a given situation.

(ii) Judgement may be made on the basis of minimum levels of certain attributes, but the final judgement is based on existence of a single specific attribute.

(iii) The consumer may decide upon alternatives using a weighted average of attributes.

But customers are often not consciously aware of what their needs are. In some respects the service product is an idea and as such the need for a service is often unrecognised by the buyer until he or she becomes aware of its availability. Even if consumers are aware of their needs, they have difficulty in expressing their desires to service providers. Customer needs are unlikely to remain constant as individual customers and their marketing environments change.

Customer orientation is being redefined as customer benefit concept, according to which a service offering cannot be defined without the consumer benefit concept being considered.

4.2.2 Service Product Strategies

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Few service organizations can service with just one specialised service. A mix is usually provided. The product mix is a combination of the products offered by a service firm to its customers. Product-depth refers to the number of different products in a product line and product-width refers to the number of product lines that an organization offers. A product line refers to a cluster of related product items.

Service companies may have to broaden their product mix if they wish to retain their competitiveness in a scenario where the demand for its primary service line seems to be declining. Contrarily, certain services may have to be removed from the product mix in case the consumer tastes change or competitive pressures make it uneconomic for the company to continue providing the service. Decisions to extend or delete elements from the product mix are continuously taken for ensuring that the services are provided more effectively (i.e., the service firm respond to the changing needs of the consumers by supplying the right service) and efficiently (i.e., the provision of those services that facilitate the most efficient use of the company's resources). The service offerings of all service organizations are limited only by the resources, facilities and capabilities at their disposal. Service organizations must continuously assess their capabilities and objectives and make sure that the variety of services that they provide meet the consumer's and the firm's own requirements.

Service product audit ensures that the right services are being provided in order to meet strategic objectives. The key questions to be asked in this regard include the following:

(i) What are the benefits sought by customers from a service?
(ii) What is the availability of the resources needed for providing the service in the present and the future?
(iii) What kind of skills and technical know-how are needed?
(iv) What are the benefits offered in addition to those offered by rivals?
(v) Is the company losing revenue because of the competitors?
(vi) Is adequate financial return still being earned by every service?
(vii) Do services meet the targets which justify continued funding?

Developing the Product mix

Four main service product strategies are:

(i) *Market penetration*: An organization continues to supply its existing services to its existing customer segments but seeks to increase sales from them. This may be achieved by increasing their total consumption, or by taking consumers from competitors.

(ii) *Market expansion*: New types of consumers are found for existing services. A restaurant chain may extend its operations to a new overseas market.

(iii) *New or modified services*: These are developed to sell to the current market.

(iv) *Diversification*: New services are offered to new markets.

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Each of these strategies involves different levels of risk. Market penetration has lowest risk as it deals with familiar services and consumers. Services development and market expansion involve greater degrees of risk as the organization is dealing with something new in each situation. The degree of risk depends on the organization's strengths vis-à-vis its competitors and on the potential opportunities available. Diversification involves greatest risk of all, involving an organization with both new services and new markets.

Option 1: Attempting to sell more of its existing range of services to existing customers' means that greater use of existing resources and facilities is required. Market positioning is an important resource.

Option 2: Attempting to sell existing services to new customers requires the use of existing resources and facilities. But no market-based resource is available as the firm is entering a new market.

Option 3: Attempting to sell new services to existing customers' means that a firm can use market resources but there may be lack of existing capability or resources to produce a new service.

Option 4: Attempts to sell new services in new markets makes it less likely that there are any existing resources available.

Services go through a lifecycle, and organizations should have a strategy to maintain a balance in its portfolio of services offerings.

Service Lifecycle Concept

The concept is based on the premise that total sales and profitability of products fluctuates according to some pattern during the product's life. This concept can be used for individual product items, product classes and whole industries.

Phase I – Introduction: Producing and launching new products is an expensive task and may involve encountering some initial troubles. Everyone may not be eager to try out something novel, particularly a new service that cannot be evaluated before being purchased due to its **intangible** nature. As a result, sales are low and confined to those who are enthusiastic about testing new products and who think that possessing it may afford them some benefit or raise their status.

Phase II – Growth: Here, the product is test and the initial troubles are taken care of. As a result, the product becomes more readily available and its reliability increases. Customers are made to observe the benefits that they can gain with the use of the product. There is a rapid growth in sales, which provokes the entry of competitors in the market.

Phase III – Maturity: Nearly everyone wishing to acquire the product would have done so by now, although some people may now be updating the product, having purchased it earlier in its lifecycle. The number of competitors too would have risen by now.

Phase IV – Saturation: The number of competitors goes up tremendously and the market does not grow anymore. The competition among the rivals is now based on price.

Phase V – Decline: As the demand falls and newer products appear in the market, firms withdraw from the market.

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The marketing activities of a service should be in keeping with the particular phase that has been reached by the service. It is necessary to plan the promotional activity on the basis of the lifecycle of the service—in the initial stage the focus should be on making the public aware of the product's launch through public relations activities; advertising should then build on this in the growth phase; the emphasis should be on promoting sales in the maturity phase; and there should be a decline in the promotional activity as the service itself declines in the last phase. Distribution and pricing are also carried out in close association with the stage that has been reached by the service.

Different products move through the lifecycle in different phases. Some remain in the maturity/saturation phase for a number of tears while others fade away not very long after being introduced. There are a variety of lifecycle modifications and mutations.

(*i*) The product has achieved a high sales level early on but there is a failure to increase sales, although there is no sign of maturity or decline.

(*ii*) The product constantly increases its sales volume in each period of time. New customers are gained and present ones increase their purchase of the product.

(*iii*) The product starts from a strong position but now experiences falling sales due to better competition entering the market.

(*iv*) In certain circumstances a product entering decline can be saved through product reformulation or sales promotion or by some external factor such as change in customers' taste. The product now displays a new lease of life. Having developed a second cycle, decline is on the way again although at a higher level of sales than existed previously.

(*v*) Product is again saved at the decline stage but the new cycle is at a lower level of sales than originally.

Studies have reinforced the existence of lifecycle among services (for instance, air transportation) Instead of speaking of the lifecycle of a product, the inseparability of services make it more appropriate to discuss the lifecycle of services.

Stage I – Entrepreneurial: In this stage, the market need is identified by the individual and a service offered to a few people, typically operating from a single location. The majority of entrepreneurs continue to remain at this stage, but some move to larger and/or additional sites.

Stage II – Multi-stage rationalization: Successful entrepreneurs commence adding the limited number of facilities. At this stage, the service provider begins developing the skills needed to operate from multiple sites. Franchising is considered.

Stage III – Growth: By now, the concept would have been acknowledged as a lucrative business proposition. The firm attempts to expand by buying off the rivals, licensing/franchising, through the development of novel company operated facilities, or by combining all these. The founder's wish for succeeding coupled with the financial pressures placed on the company influences growth.

Stage IV – Maturity: There is a decline in the number of new outlets and the revenues from individual facilities get stabilized. (It may also decline in a few cases.). This may be because of the cannibalization of the company's older services by the new services, heightened competition, varying consumer tastes or shifting demographics in the organization's markets.

Stage V – Decline/Regeneration: Organizations may end up becoming complacent and decline if some new concept is not developed or if some new market is not found.

Difficulties in Applying the Lifecycle concept

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The service lifecycle concept finds more frequent use in strategic planning and control rather than in the development of forecasts for the short term. In reality, the variability of lifecycle patterns in terms of duration and shape makes it difficult to make any realistic predictions. Marketers are unable to accurately predict exactly what point in the lifecycle a particular product has reached at a specific time. For instance, if sales get stabilized, it may be indicative of a progress towards maturity or merely a temporary plateau that is the result of outside causes. Instead of indicating the environmental factors that the organization must be responsive to, the shape of the lifecycle may actually be the outcome of the company's marketing activity.

The duration of the various phases is dependent on whether it is a brand, form or product class that is under consideration. The majority of service firms have only a few core services, so the lifecycle concept must be used with caution for services.

4.2.3 New Service Development

The development of new services may become necessary in the following circumstances:

(i) The company's current sales portfolio can be balanced with the help of a new service, which in turn can assist in reducing the dependence on the small number of services offered within a range.

(ii) The development of new services can aid in utilizing space capacity.

(iii) In case the maturity stage has been reached by some major service and a progress towards decline is in the offing, the development of a new service can assist in preserving the sales level.

Organizations may be compelled to come up with novel products for retaining and developing customer relationships so that they can offer a more comprehensive portfolio of services. The development of new services may present companies with opportunities for satisfying the hitherto unmet requirements of the client in the face of competing firms exiting from the market.

What is a new service?

Given the intangibility of services, minor variations can be introduced on existing services. This means that the term new service can include anything from major innovations to minor style alterations.

Five types of new services are:

1. *Style changes:* These include change in decor, logo.
2. *Service improvements:* These involve an actual change to a feature of the service already on offer to an established market, for instance, computerization of travel agency information.
3. *Service Line Extensions:* These are additions to the existing range of service products.

4. *New Services:* These are new services that are offered by an organization to its existing customers although these may be currently available from its competitors.
5. *Major Innovation:* These are completely novel services meant for new markets.

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The distinctive features of services as compared to tangible goods raise a number of special issues:

(i) The intangibility of services leads to proliferation of slightly different service products. New services are easy to develop and variety of different services causes confusion.

(ii) Inseparability between service production and consumption means that front line operational staff has greater opportunity to identify new service ideas that are likely to be successful.

(iii) As services are more likely than goods to be customised to the needs to individual customers, there are greater opportunities for marginally different new services each having its own selling proposition.

New Service Development Processes

A systematic development process aids in reducing the risk of failure at the time of launching new products. The steps for launching a new service include the following: generating an idea, screening the idea, developing and testing the concept, analysing, developing and commercializing the business.

It is usual to compress a number of these sequential stages in order to ensure that their timing overlaps with other stages.

(i) *Idea Generation:* Ideas can be generated from within an organization and also from outside, either formally or informally. Generating new ideas is not a problem for most service firms. Inseparability means that front line staff has a closer understanding of both service operations and customer needs, and therefore a large number of new ideas comes from operating staff.

Marketing and not the operational function is the most common internal source for coming up with new service ideas. Continuous contact with both the rivals and customers is included in the marketing function, which thus becomes a source of market information. A much smaller proportion of new ideas emanate from operations functions because new services are perceived as a further burden which would complicate their operations. Although generation of ideas is relatively easy for service firms, the degree of novelty of ideas is less. Many ideas tend to be conservative, focusing on minor modifications, geographical extensions or 'me too' ideas.

The customer is an important source of ideas for new services, and a study of the interaction between service provider and customer is important.

(ii) *Idea screening:* It involves evaluating the ideas that have been generated and rejecting those that do not make the best possible use of the resources of the organization. As a rule, the criteria for making comparisons are established. The **intangible** nature of services complicates the process of assessing the idea. Customers are often reassured about a service provider's credibility through its

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image. Therefore, enhancing or supporting a company's image is a significant factor that is considered when an idea is being screened by a firm.

(iii) *Concept development and testing:* The idea that makes it through the screening process now has to be converted into a service concept. This is then tested by obtaining reactions from groups of target customers. Service positioning is important at this stage. This involves the development of a visual presentation of the image of an organization's service in relation either to competitive services or to others in its own mix.

(iv) *Business analysis:* In this stage, the company tries to convert the business idea into a business proposal. It analyses the potential for success/failure and the resource requirement such as additional physical resources, personnel and so on. Here, a number of the factors that may be instrumental in determining the proposed new service's financial success continue to be mere speculations.

(v) *Development:* In this stage, the idea is translated into the actual service that can be delivered to customers. Here, it becomes necessary to design and test the service delivery system and all the tangible components that make up the entire service offering. Test marketing among service firms is limited. One possible alternative is to introduce the new services with limited promotion just to test whether it operates effectively or not.

(vi) *Commercialisation:* The organization makes decisions about when, where, how and whom to introduce the new service to. A successful new service development programme requires an organizational culture that is conducive to changing market conditions and which can respond quickly to such changes. Service firms are often not as flexible as goods companies. Product champions are people who have the commitment and responsibility to develop and protect new ideas to the final launch. Integrators are people who can step across multi-functional boundaries and encourage coordinated effort through persuasion.

4.3 CUSTOMER EXPECTATIONS OF SERVICE MARKETING, SERVICE PRODUCT AND SERVICE QUALITY

A thorough understanding of the market, i.e., its location, the characteristics of its customers and the reasons behind their purchasing decisions, is necessary. Small geographical clusters of households can be identified by combining their purchase behaviour and their demographic characteristics. This data comes in handy when merchandising, store locations and direct-mail campaigns have to be planned. Clusters of customers can also be identified by means of an alternative qualitative approach that has its basis in analysing the elements of a specific service offering. This too is a benefit-based technique that distinguishes market segments. This may be followed by the service organization targeting the customers with special products designed in keeping with the requirements of the service.

Check Your Progress

1. Name the four main service product strategies.
2. What are the various stages of a service lifecycle?
3. What are the stages of a new service development process?

4.3.1 Buyer Behaviour

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The important factors to be considered in understanding consumer behaviour in services are as follows:

- The people that are a part of the process of arriving at a buying decision
- The time taken to arrive at the decision
- The competitive services from amongst which consumers have to choose the alternative they prefer the most
- The comparative significance that the person making the decision attaches to every element of the service offer
- The various sources from which information can be gathered to evaluate the competing service offers

A fundamental requirement that triggers a search for need-satisfying solutions is apparent from simple buyer behaviour models. The idea is to identify possible solutions and then evaluate them on the basis of certain criteria. The interaction between the final decision-maker and all those who influence him results in the final decision to purchase something. After purchasing and consuming the product, the customers develop impressions of their experience, which in turn influences the decisions they make in the future. A complex and iterative process, the service purchase decision process involves a variety of decision criteria and numerous influencers. Trying to comprehend the needs of the buyer can be difficult. It involves making a clear distinction between the needs and the expectations. Since services are **intangible** and it is not possible for customers to look into the nature or the quality of a service prior to consumption, it becomes all the more important to understand the sources of information that customers use to evaluate a service.

Few individuals make totally isolated service purchase decisions. Usually, other people influence in one way or the other, the final decision to make the purchase. Therefore, the key players in the purchase decision process must be recognized in order to configure the service format for meeting the requirements of the people and to adopt promotional messages that are aimed at these key players.

It is possible to identify many roles amongst the people engaged in the process of making the purchase decision. The people whom the final decision-maker refers to in arriving at the final decision are called the influencers. The final decision-maker may refer either to the primary reference group, which involves work colleagues, acquaintances and friends, or the secondary reference group, which involves remote personalities with whom two-way interaction does not take place. A strong influence exerted by the primary reference group on the buying decisions is indicative of the necessity of taking measures that can promote word-of-mouth communication. For instance, rewarding regular customers for introducing new customers. Analysing the secondary reference group that consumers refer to while making the purchase decisions can prove to be useful in many ways. It is indicative of the potential people whom the company can approach for endorsing the products in the organization’s advertisements. It also points out the opinion leaders who should be targeted by the company in its communication programme, for achieving the maximum possible trickle-down effect. This group may also include the media - purchase decisions can be influenced by what is written in a magazine article.

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It is common to find gatekeepers amongst commercial buyers. They chiefly perform the role of acting as filters on the variety of services that are a part of the decision choice set. There are many forms of gatekeepers. For instance, secretaries who bar calls from salespeople to the decision-makers screen out numerous potential choices. Establishing who exactly the gatekeeper is can be difficult. Therefore, it becomes more difficult to identify market strategies that will be accepted by the gatekeepers or that will completely bypass them. In larger firms, particularly the public sector, only a select list of suppliers may receive the invitation for submitting tenders for a specific job. A service provider who has no place on the list would not be able to become a part of the decision set. Though it is common to associate gatekeepers with the buying of industrial services, they are also applicable to consumer purchases. In the case of a number of household services, the initial stage of the process of making the decision can involve collecting brochures or making telephone calls for inviting quotations for services. Although the final decision would be subject to shared discussions and action, it is more likely that the early part involving the collection of the decision set would be entrusted to a single individual.

In some cases, ordering a service may become a routine task, which the company may delegate to individuals. In the case of industrial services, old, low budget items are entrusted to the buyer's discretion. Where new purchases or altered rebuys are concerned, the chances of the decision-making unit being larger are higher.

The service users may not be the same as the individuals actually making the buying decision, especially in the purchase of industrial services. It is necessary to undertake research for revealing the degree of importance of the user element in the process of making the purchase decision. In the business air-travel market, for instance, the pressure exerted by the actual passenger on choosing a particular airline must be understood in opposition to the pressure exerted by a company buyer (having a long-term contract arrangement with a specific airline), a gatekeeper (who discards the promotional material of novel airlines) or others who influence the decision process (cost-concerned managers as against quality concerned users).

Decision-makers are the persons who make the final purchase decision in terms of executing the purchase themselves or instructing someone else to do the same. Identifying exactly who has the maximum authority to make the final purchase decision can be difficult in the face of a number of family-based services being available. Within a specific service sector, it is possible to realistically analyse the process of decision-making only through in-depth qualitative research. As far as decisions made by commercial buyers are concerned, it can be quite difficult to identify the individual who makes the final decision in the organizational hierarchy.

Choice Set

Most buyers of services do not act with total rationality — to do so would imply identifying all possible sources of supply and applying logical evaluation criteria to each.

Organizational buyers may act with somewhat more rationality than individual consumers, but they are still likely to show great scope for irrationality in decision-making. A company buyer may prefer the simple and relatively risk free approach of staying with the services with which he is familiar rather than reviewing all possible

choices periodically. Research should seek to establish the choice set (i.e. group of services from which a final decision is made) against which a company's service is being compared and on this basis, the marketing programme can be adapted in order to achieve competitive advantage against other members of the choice set. In the case of a proposed service, research may be undertaken to establish the criteria which consumers use to include a particular service with their choice set.

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Models of Buyer Behaviour

Normative rather than strictly quantitative explanations of the behaviours exhibited by the buyers are provided by the majority of buyer behaviour models. This is made worse by the lack of any guarantee regarding the validity of the assumptions in which the model initially had its basis. One of the most commonly applied frameworks used in consumer purchase decisions and incorporating many elements was developed by Howard and Sheth. The following are some of the elements incorporated in the model:

(i) *Input:* It consists of information regarding the variety of competing services that might gratify the requirements of the consumer. The company may obtain information from published or personal sources.

(ii) *Behavioural determinants:* A certain predisposition to act in a specific manner is brought by individuals to the purchase decision, which is molded by factors such as personality, family and the culture they inhabit.

(iii) *Perceptual reaction:* Individuals may interpret inputs in a variety of ways on the basis of their distinctive personality type and the conditioning resulting from prior purchase experiences. While the advertising message of a travel agency may be readily accepted by one individual, someone else who may not have had a very pleasant experience with the same travel agency in the past may not be very likely to accept the credibility of such inputs.

(iv) *Processing determinants:* The manner of arriving at the decision is emphasized here. Some of the more significant processing determinants are a person's motivation to gratify a specific requirement, his experience with a specific firm in the past and the importance given to the factors considered while evaluating the service. In the case of certain consumers, there may exist certain service-critical product needs, which are necessary for the product too be included in the decision set. Sometimes, a lot of weight is attached by consumers to every attribute and the product with the highest weighted average score is selected.

(v) *Inhibitors:* Individuals may be prevented from proceeding towards arriving at a purchase decision for a specific service by numerous factors such as the accessibility of the service, its price as well as the terms and conditions of delivering the service.

(vi) *Output:* At the conclusion of the process of decision-making, the individual may wither decide to buy or not buy the service, or defer the decision for a later date. The **intangible** nature of services coupled with the consumer's inability to assess a service prior to consuming it leads to more complexity in collecting information and assessing a service. Fisk has developed another model specifically for services.

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According to Fisk's model, the purchase process is broken up into three phases—pre-consumption, consumption and post-consumption. In the first phase are included the assortment of activities that usually occur prior to a purchase decision being made. This phase begins by recognizing the problem, collecting information and identifying the choice set. The task of the consumers in this stage is the identification of the best solutions. In the second phase, decisions are made by consumers regarding the best choice on the basis of prior experience. They compare the expectations raised at the pre-consumption stage with the actual service delivery. A gap between the two indicates that the company should attempt to bring down the dissonance. For instance, if the company fails to meet the expectation, the consumer may resolve the dissatisfaction that results from it through complaints. In the last stage, the focus is on evaluating the entire service encounter and determining whether the consumers are motivated to continue using the service in the future. The model shows evaluation as three distinct elements whereas in reality a service is progressively evaluated.

Research into restaurant choice decisions revealed five key factors used in the evaluation of a restaurant – food quality, menu variety, price, atmosphere and convenience. However the importance attached to each of these factors differed according to the purpose of the visit to the restaurant. The factors influencing a choice of restaurant for a celebration are quite different from those used for a general social occasion.

Consumer vs Organizational buyer behaviour

There are a number of reasons why the processes by which individual consumers purchase services are usually different from the processes by which organizations purchase services.

(i) When a company purchases a service, two sets of requirements are simultaneously met—the company's formal requirements as well as the requirements of the individuals making up the company. While the formal needs of the company are more rational, the needs which individuals seem to gratify are affected by their behavioural and perceptual environment in a manner similar to individual consumer purchases.

(ii) Organizational purchase involves more people. It may be necessary to evaluate high-value services and get them approved at numerous levels in the firm's management hierarchy.

(iii) Organizational purchases are made according to formalized routines. For this, it may be necessary to delegate the task of dealing with previously assessed repeat service orders to a junior buyer. At the other end of the spectrum, it may be possible to make a number of high-value service purchases only at the end of a formal process of bidding and assessment.

(iv) If there are more people involved in organizational buying, it would take longer to go through the entire process. Lengthy feasibility studies are a result of the concern with risk minimization that is present formally in most organizational objectives and informally in most individual aims. An important factor that purchasers concern themselves with at the time of evaluating rival suppliers is trust in the service supplier. Building a trustworthy relationship may take considerable time.

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(v) The components that are given more significance at the time of evaluating a service offering may vary. In the case of a number of services, while organizational buyers lay greater emphasis on performance characteristics and reliability, private buyers give more prominence to price. In numerous instances, poor service performance directly affects the financial position of the firm.

(vi) The need to reduce the risk of organizational buyers seeking the active cooperation of suppliers in handling problematic issues has resulted in more attention being paid to developing a better relationship between the seller and the organizational buyer instead of isolating individual purchases. Cooperation between the buyer and seller happens through social and information exchange as well as exchange of the product itself. Exchange of these elements may become routinized over time leading to clear set of roles and responsibilities that each party is expected to carry out. There is adaptation in each others behaviour and material trust.

Positioning services

Competitive strategy is often narrowly focused at direct competitors i.e. firms which market products that offer a similar way of achieving the same benefits (colleges offering similar classes). However, there may also be a serious threat from generic competitors which offer customers a different way of achieving similar benefits (distance education).

It is important to highlight both opportunities and threats to the firm in the competitive marketplace, including the presence of generic competitors.

The basic steps involved in identifying suitable market positioning and developing a strategy to reach it are:

(i) **Market analysis:** This determines overall level and trend of demand and geographic location of this demand. Alternative ways of segmenting the market should be considered and an appraisal made of the size and potential of different market segments.

Research is needed to gain better understanding not only of customers' needs and preferences within each of the different segments but also of how each perceives the competition.

(ii) **Internal corporate analysis:** This identifies resources and limitations of its management. Using insight from this analysis, the organization is able to select a limited number of target markets which it is willing and able to serve with either new or existing services.

(iii) **Competitive analysis:** Strengths and weaknesses of competitors are analysed, which suggests opportunities for differentiation. Relating these insights to the internal corporate analysis should suggest which benefits should be offered to which target market segments. The outcome of integrating these three forms of analysis is a positioning statement that articulates the planned positioning on the organization in the market.

4.3.2 Developing Relationships with Customers

The traditional marketing theory has focused attention on encounters as being a series of discrete events, viewed in isolation from preceding exchanges and without analysis of both parties' expectations for future exchanges. Some services can be supplied

quite adequately on the basis of a series of discrete casual encounters. Most people who are hiring taxis would have little need for a relationship with a supplier.

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A relationship-based series of encounters are useful for both customer and producer in the following circumstances:

1. Some services involve a multi-stage production process and it is not sensible for a customer to switch a services provider during production. This would require the new supplier to establish what has already been carried out during previous stages. A surgeon who keeps records is able to perform an operation with the benefit of the knowledge gained during previous examinations and operations. A new surgeon may have to begin afresh with diagnostic checks.
2. The service provider may be required to monitor the results of a service after it has been delivered and therefore needs to engage in some form of relationship. An engineer who has installed a new heating unit may need to check its operations after a certain specific time period.
3. Legislation may require that some form of relationship exists between a buyer and seller before a service can be provided. Sometimes a license allows a company to supply only to bonafide members of a club. In other cases, legislation may require that the supplier take steps to establish the true needs of the buyer before a service is agreed to. The Financial Services Act requires many categories of financial intermediaries to undertake an audit to assess the customer's financial circumstances before any commitments are made.
4. Where services are complex in nature or allow significant adaptations to meet customers' different needs, the customers are more likely to seek a relationship with suppliers. Risk tends to increase with complexity, and by establishing relationships, customers seek to reduce the level of perceived risk. In some markets, customers may seek reassurance which a relationship can bring in, in terms of the ability to obtain preferential treatment or semi-automatic responses to requests for services.

   Customers signing up for a regular maintenance contract on domestic appliances avoid the need to formally initiate service requests each time a service is needed. By entering into such a relationship, buyers can also circumvent the high transaction cost that is a result of multiple service ordering.
5. Security in the relationship is sought by both the customer and the supplier when there is some turbulence in the market environment.
6. Developing a strong relationship can help the supplier of the service gain customer loyalty, even when rival brands try to challenge it. The development of a strong supplier-customer relationship helps the latter in differentiating the supplier's products and promotes their loyalty. As far as highly competitive markets are concerned, it may be possible for service suppliers to lure new customers only by incurring high costs in offering price incentives and engaging in promotional activities.

   For most services, the cost of recruiting new customers exceeds the revenue earned from the first transaction. It is only by pursuing a long-term relationship that an organization is able to make profits.

7. A more formalized relationship with customers facilitates the suppliers' task of collecting feedback from their customers. The aim is to move away from delivering goods and services by a series of discrete transactions towards continuous delivery through an ongoing relationship.

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Strategies used by service organizations to develop relationships with customers

Relationship development takes place in five stages: awareness, exploration, expansion, commitment and dissolution. Relationships begin to acquire importance at the first stage when they are characterized by the sellers' attempts to attract buyers. At this stage, both the parties try to bargain and comprehend the nature of the power, norms and expectations that the other party holds. The expansion phase of the relationship results from the successful conclusion of the initial exploratory interaction between the parties. Exchange outcomes at the exploratory stage bring to surface clues about the appropriateness of the long-term exchange relationship. During the commitment stage, a certain extent of exclusivity is achieved between the two parties along with a reduction in the search for alternatives. The next phase (dissolution) entails recognition on the part of both the seller and the buyer that their respective goals can be better achieved outside the relationship.

A number of strategies are used by service organizations for moving their clients through the various phases of the development of a relationship:

1. There is potential for a relationship to develop only where there is awareness on the part of both the parties regarding the existence of each other and their shared wish for entering into an exchange transaction. During the awareness phase, the two parties may not entertain similar views about the probability of the formation of a long-term relationship. As such, suppliers need to provide prospective customers with reasons for being disloyal to their current suppliers. In a few instances, service firms may offer lower introductory prices as an incentive for the disloyal customers of other service organizations to turn to other suppliers. Other firms may employ non-price related means of attracting attention such as direct mail and advertising that directed towards particular sections in order to ensure that they are not encouraged to switch to other companies with lower prices. The adoption of this strategy entails some level of risk for the sellers in that the identification and exclusion of the sections that are likely to be most disloyal and thus withdraw from the relationship when the supplier is best positioned to start earning profits is difficult.
2. The sellers and buyers, when they enter into a relationship, promise certain things to each other. The former's promises lead the latter to entertain certain expectations regarding the standard of the service that will be delivered. A gap between the anticipated and the real service performance determines how customers perceive quality.
3. At the first encounter, service firms record information about customers that can come in handy in assessing their future needs.
4. Incentive for frequent users helps in developing short to medium term loyalty.

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5. Companies try to create relationships by turning discrete service delivery into continuous delivery. Bus companies offer season tickets valid at all times, which keeps customers from having to make a choice between competing bus operators.
6. Some service organizations reward their customers for their loyalty by offering monetary incentives such as reducing the price for a future service, simple money-off vouchers and a club-type scheme which allows a standard level of discount for club members. However, purely financial incentives may end up defeating the primary aim of the supplier of obtaining the maximum value from a relationship. Initiating relationships can often be expensive; so organizations seek to gain profits during subsequent phases by inflating the margins to mirror the value attached by the customers to the relationship. A better bond can be forged between the supplier and the customer if membership schemes are sold to customers that facilitate discount at a later period. Once customers invest in a membership scheme, they are likely to rationalize their motives for capitalizing on it instead of switching over to another company.
7. Instead of offering price discounts, service firms can supplement the value of a relationship by offering non-financial incentives. For instance, a number of retailers offer special preview evenings to customers who have joined their membership club.
8. Companies can try to retain information regarding individual customer preferences to enable the tailoring of future requests according to these needs. For instance, travel agents can arrange accommodation for clients on the basis of information they may have gathered during a previous service encounter. Some value is added to the relationship this way, which in turn adds to the client's transaction cost of switching over to some other agent.
9. More intense relationships may be developed when a substantial amount of responsibility is assigned by the customer to the service provider with regard to ascertain their requirements in this manner. For example, a car service station can go beyond providing a set of discrete customer-initiated services and assume absolute responsibility for the car's maintenance including problem diagnosis and routine servicing.

In some low-contact service industries, the development of relationships focus on interaction with a very limited number of people i.e. organization's sales force. Two important elements used to explain relationship quality are trust in the salespersons, and satisfaction with their performance. The role of the salesperson as a risk reducer is in terms of his ability to reduce the perceived risk of a highly **intangible** service purchase. The emerging relationship between buyer and seller is trust, which is a belief that a party is reliable and will fulfill its obligations in an exchange relationship while relationships may endure as a result of one or both parties having no choice but to remain with the other. Trust is a crucial function in a relationship which allows tensions to be worked out.

Relationship marketing has emphasised the producer's perspective on a relationship, but it can be argued that with more knowledge and confidence, consumers are increasingly happy to venture outside a long-term relationship with a service provider.

Customers now occasionally change their banks with increased knowledge of financial services; as are consumers more willing today to venture to another bank which offers the best personal loan for them. Also, a long-term relationship often begins with attractive introductory discounts and a significant segment of many service markets is prepared to move regularly to the service providers offering these discounts.

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4.3.3 The Management of Customer Demand

The task of managing markets and ensuring a good fit between supply and demand is more complex for services than for goods. Since the production and consumption of goods are separable, the manufacturers of goods have the option of holding stocks of goods that can be moved to even out imbalances in supply and demand. Stocks can also be built up for catering to peaks in demand.

Many of the strategies for managing supply and demand that are open to goods manufacturers are not available to service producers. The inseparability and perishability of services result in there being insufficiency in matching demand and supply in the long term, within the purview of a widely defined geographical market. Instead, it becomes necessary to match demand and supply temporally and spatially. It is neither possible to transfer an excess production capacity in one time period to another one of shortage nor is it possible to meet excess demand in one area with excess supply in another area.

There can be eight different demand situations:

1. Negative demand occurs where most or all segments in a market possess negative feeling towards a service, to the extent that they may even be prepared to pay to avoid receiving that service. Many medical services are perceived as unpleasant and are purchased only in distress, even though there may be benefit to individuals from receiving regular preventive treatments. There is criticism of increase in medical charges on the grounds that they will reinforce the negative states of demand for regular checkups, possibly at a greater long term cost to the individual. The task of marketing is to identify the cause of negative feeling and to counter these with the marketing programmes. The introduction of interior design, background music, friendly personnel and promotion campaigns to stress both the pleasantness of modern surgeries and the valuable long-term health benefits may overcome the problems of negative demand.
2. No demand occurs where a product is perceived by certain segments as being of no value. In the financial services sector, young people often see saving and pension policies as being of no value to themselves. The task of marketers seeking to create demand in such segments is to reformulate the product offering and promotional methods used so that the product's benefits are more readily comprehended by the target segments.
3. Latent demand occurs where an underlying need for a service exists but there is no product that can satisfy this need at an affordable price to consumers. New products have to be developed or made available at a price that would allow latent demand to be turned into actual demand.
4. Faltering demand is characterised by a steady fall in sales which is more than a temporary downturn. The task of management is to identify the causes of this downturn and to develop a strategy for reviving demand.

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5. Irregular demand is characterised by uneven distribution of demand through time. The inability to store services from one period of low demand to others of high demand means that this pattern of demand poses major problems for many service industries. It can be overcome by a combination of demand management designed to reduce the irregularity of demand, and supply management aimed at meeting demand as closely as practical.
6. Full demand exists where demand is currently at a desirable level and one which allows the organization to meet its objective. The management task moves away from increasing the volume of demand to improving its quality by concentrating on high value activities aimed at high spending segments.
7. Overfull demand occurs where there is excess demand for a service on a permanent basis. The marketing task is to shift demand in a manner which does not cause long- term harm (e.g. shifting demand by high prices alone may build an exploitative image which may be harmful in the future) should demand need to be stimulated once more. It also involves increasing supply where this is possible, and does not detract from the exclusive image of the product.
8. Unwholesome demand occurs when an organization receives demand which it would prefer not to have. It may be forced to meet the demand because of legal requirements (the post office cannot refuse to deliver letters for customers who are very expensive to service) or because of a long-standing commitment to supply a service to a customer. The marketing task here is to try to eliminate new demand, reduce promotional activity and higher prices.

Managing irregular demand

The inability to store services does not create problems as long as there is a certain degree of stability and predictability in the demand levels. The majority of services encounter significantly variant demand. Demand can peak in many ways:

- **Unpredictable variation:** Demand for telephone line repairs at the end of a storm
- **Cyclical variation:** Demand for engineering services
- **Seasonal variation:** Demand for personnel in bakeries in the run up to Christmas
- **Weekly variation:** Inter-city trains on Friday evening
- **Daily variation:** Bus services during evening and morning rush hours

In practical terms, a number of services encounter demand paradigms that follow many such peaks. Restaurants may experience seasonal peaks, weekly peaks (on weekends) or daily peaks (mid-days).

In order to be financially successful in a competitive market that faces uneven demand, service firms must match demand and supply, and that too at costs that are lower than that of rivals, or provide a higher standard of service, or both. Service organizations need to strategically view the level of demand that they seek to cater. In particular, they need to come to a decision about the extent to which they must endeavour to meet peak demand instead of turning business away.

A number of factors influence the precise cut-off point:

- It may prove to be quite expensive to provide for peaks in demand that do not occur frequently, particularly when the firm has to supply high level personnel or equipment that it cannot lay off or put to alternate use at the time there is a slack. For example, it may be necessary to use enlarged platforms at terminals for catering to only a few extra peak trains every day.
- Additional poor-quality customers may be brought in by peaks in demand. For example, having to cater to the comparatively more stable all year round local clients may be valued more by restaurants than the rare peaks in demand during the holiday season.
- If the output of a service organization exceeds the optimal level, the quality of the service may be adversely affected.
- An organization stands to lose precious core business if it fails to cater to peaks in demand. For example, banks that often experience queuing for cheque and cash facilities might risk losing their relationships with customers if they take not only their cheque facility to a rival bank but their insurance and mortgage businesses as well.

Optimum capacity

Optimum facility is defined as that for which a facility was designed. Extra demand may lead to the need for forming queues and therefore discomfort. The maximum available capacity sets the upper limit to which a service provide can deal with customers (a 52-seat bus can carry nearly 100 passengers during rush hours). While in the slack period, there is wastage of resources, at the peak, the service provider loses business in case demand is satisfied above the optimum capacity level, but at the cost of customer service. Following the arrival at a strategic decision regarding the level of demand, the company must develop tactics for matching demand and supply in every time period. This can be done in two parts:

- Management of the supply of the service to match the pattern of customer demand
- Management of the state of demand for evening out peaks

Managing Service Capacity

The output of a service organization is determined by the productive capacity of its equipment and personnel. The degree to which a firm is capable of adjusting its output for meeting variations in demand reflects the elasticity of these factor inputs. Capacity may be considered inelastic over the short term in cases where it is not possible to produce extra capacity (hotel rooms). It is considered elastic when it is possible to adjust supply in response to demand. Highly elastic supply permits organizations to fulfil their short-term demand changes with the introduction of extra capacity at short notice. At times, it may happen that the capacity is elastic, but only to a specific extent, and inelastic after that. Railway operators are capable of providing extra coaches for meeting passenger peaks until they run out of terminal facilities, thus making the supply inelastic at that point. Therefore, it is important to define a time frame when discussing elasticity of supply. Sudden demand shifts may make the supply inelastic, while adequate advance planning may make it possible to make up for extra capacity.

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It is not possible to isolate supply management from time and operations management. Some general strategies used by service firms to enhance the responsiveness of supply are as follows:

- Scheduling personnel and equipment so that they can switch between alternative uses for reflecting the varying demand patterns. For example, large halls can be used by hotels for meeting peak demands for conferences during the day and for parties and banquets in the evening. Likewise, it may be possible to train personnel to perform varying tasks during periods of peak demand.
- Switching resources among multiple uses at short notice. For example, store assistants responsible for restocking shelves can be called on at short notice to perform more inseparable and perishable service functions like giving advice on products.
- Bringing in capacity on a part-time basis, specifically when the demand peaks, including equipment (e.g., charter additional aircrafts during the holiday season) and human resources (e.g., hire bar staff only for the evening).
- Organizing operation in such a way that it becomes possible to carry out the maximum back-up work during periods of slack in demand. This specifically impacts the tangible element of the service offering. It is possible to service the equipment when demand is not so high (aircrafts), at which point, the personnel too can prepare as much as possible in the period preceding the peak.

Though it would be preferable to make the supply of service components as elastic as possible, it would not be desirable to view these elements in isolation. The benefits that could be provided by the elasticity in supply of a certain component can get negated if the supply of the other related service components is not equally elastic. For instance, a strategy that enables a tour operator to add to the carrying capacity of its aircraft at short notice would serve no purpose if the availability of accommodation too does not increase simultaneously. The critical bottlenecks that come in the way of satisfying customer demand must be identified by capacity management.

Managing the pattern of customer demand

In cases of demand being at its peak and the service firm finds itself unable to do anything about it, the end result is queuing for the firm's services. But this harms the long-term development of relationships and also denies short-term opportunities that can be presented by troughs and peaks. Services that operate in non-competitive environments usually have a simple queuing strategy in place. As far as competitive markets are concerned, the need is for a more proactive strategy that is market-oriented and is capable of managing the demand pattern.

Some of the most commonly used methods to manage demand are as follows:

- Stimulating demand when demand is not at its peak with the help of all the components of the marketing mix. It is usual to reduce prices at times of slack through numerous tactical forms (e.g., 'happy hours' in bars, off-peak train tickets, etc.). It is also possible to reformulate the product offering itself by bundling it with other products (e.g., business hotels offer activity breaks during weekends so that spare room capacity can be filled). Another option

is to make the distribution of services more advantageous to customers during periods of slack in demand. For example, a restaurant may offer home delivery services at the quieter times of the season or day. In the case of a number of services, organizations concentrate on demand stimulation during periods of slack. In instances where the service is publicly consumed, it may be extremely significant to stimulate demand during slack periods as a means of enhancing service quality. For example, in theatres, not only do more customers bring in more income, but they also make up the atmosphere of the theatre for the other customers who come for the ambience created by the active interaction between the spectators and the live performer.

- Likewise, suppression of demand takes place by reformulating the marketing mix when demand peaks. Firms directly (surcharge for travelling by train on Friday evenings) or indirectly (eliminating discount when demand peaks) increase prices. They frequently reduce the service promotion that is associated with peaks in demand. They also frequently simplify product offerings as well as their distribution during periods of peak.

Queuing and reservation systems

Where demand is more than supply and when the best management measures have been unable to match demand and supply, it is desirable to put in place some form of reservation or queuing system. A formal reservation or queuing system is preferred over a random free-for-all system due to the following reasons:

- An advance reservation system allows a company to identify future periods of peak in demand. As long as supply is reasonably elastic in the mid to short term period, it is possible to adjust supply so that demand is met, either through the production of extra capacity for meeting unexpected surges in demand, or through lay offs where it seems that demand might fall below the anticipated level. For example, advance reservations for a charter airline can assist it in scheduling its fleet for accommodating the maximum number of prospective passengers.
- Queuing and reservation systems permit the development of organization-customers relationships at an early stage. It is possible to form the relationship at the simplest level through the use of telephone enquiries for gaining some level of commitment from prospective customers, and for offering them services at mutually convenient terms that can assure both the supplier and the customer of achieving their goals. Alternatively, it may also be possible to develop the relationship from the moment a prospective customer enters a service outlet and joins the queue. For customers, the way they are handled in the queue forms a part of their assessment of total service quality.

  Numerous techniques can be employed for this:

  (a) Firms should maintain caution in making promises that have to do with queuing times. When customers are encouraged to expect short waiting times, but have to encounter long waiting hours, they perceive it as a failure of the service, which in turn, could affect their perception of the later phases of the service delivery. Warning customers of long delays is preferable as the actual relatively shorter delay causes them to perceive the service as going beyond what they had expected. This will lead them to step into the subsequent phases of the service process in a more

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affirmative frame of mind.

(b) If the customers perceive that some progress is being made, the waiting time will seem to pass more quickly. Customers are likely to become anxious if they are uncertain about the extent of time for which they have to wait and this can add to their perception of a longer delay. As such, they must perceive that the queue is progressing quickly.

(c) Attempts can be made during the waiting process to take customers' minds off their wait. This can be done, for instance, by providing a comfortable TV lounge for customers waiting for their car to be service.

(d) Where it is uncertain how long the delay can last, the firm must communicate regularly with the waiting customers that explains the reason for the delay and tries to pacify them for the hardships they have to endure in waiting for their turn.

(e) A queue represents an opportunity for a firm to familiarize its customers and interest them in the other services that the firm offers.

(f) At times, a queue for a specific may be utilized by a firm for cross-selling other higher-value services. For instance, the personnel can persuade a prospective customer for an economy class ticket to purchase a first-class ticket instead of waiting for the availability of an economy seat.

4.3.4 Intangibles in Services Marketing

As already discussed in Unit 1, intangibility is a characteristic of a service; you cannot touch and taste it. It does not seem like a pure product can. Due to its intangibility, it is difficult to express the advantages of services. Because of the intangibility of services, the images marketers use reinforce the benefit or value that a service provides. For examples, professionals associated with the services sector, such as doctors, lawyers, accountants and consultants, depend heavily on consumers' perceptions of their integrity and trustworthiness.

The four basic intangible elements in services are nostalgia, comfort, convenience and social status.

Nostalgia

Many marketing operations aim at appealing a potential customer's sense of nostalgia. Nostalgia is something that sets off a memory from a person's past. Product advertisers often use this sort of intangible to sell products by trying to connect happy experiences with their product or service.

Comfort

A very popular form of intangible qualities used in services marketing campaigns is to sell the feeling of comfort. Such a feeling may be in the form of relaxation or happiness, and it is often used to sell vacations and houseware. Advertisement of a mattress that depicts a happy person just waking up is an example of this intangible dimenion services marketing. Such marketing tries to appeal to a consumer's idea of a happy sleep experience.

Convenience

There are many products that are sold on the intangible of convenience. Such a marketing strategy is usually based on the ease of getting the product or by positioning the product or service as something that will ease the consumer's life. Sit-down restaurants offering curbside delivery service are the examples of the intangible of convenience. The food at such restaurants may be the same as their competitors. However, they are offering an intangible service that sets them apart from the restaurant down the street.

Social Status

Some marketers appeal to a consumer's desire to gain or maintain a high social status. For instance, many car brands, such as Lamborghini, base their entire marketing strategy on this intangible. The policy behind this type of marketing is to tie the product with a specific type of lifestyle – a lifestyle that is often lavish and exclusive. Many people are of competitive temperament, and hence they like to have more than what their peers or neighbours have. Such marketing may be effective with them.

4.4 IMPROVING SERVICE QUALITY

Quality is an important element in defining a service offer. It is a significant basis which customers use for differentiating between competing services.

For tangible goods, quality can be assessed by examining the goods in question. With services, quality is less testable, and it can normally only be assessed once a service has been consumed. For this reason, the purchase decision process for a service involves more risk than in case of goods. It is difficult to understand the specific dimensions of quality that customers consider important in evaluating services. It is not sufficient for companies to make assumptions and deliver quality standards in accordance with their own assumptions of customer expectations. One problem that service providers face has to do with the definition of service quality – the significance attached by customers to the quality of the service is different from the significance attached to their services. However, unlike goods, it is difficult to separate the two in the case of services.

4.4.1 Defining Service Quality

Quality refers to the conforming to requirements. Therefore, the first task of a service firm must be the establishment of specifications and requirements, following which, the goal set by the various functions of the organization in terms of quality must be strict compliance to these specifications. But the problem with this definition of quality is, 'whose requirement and whose specifications'. According to another definition, quality has to do with fitness for use. This definition has its primary basis in the satisfaction of customer requirements.

It is possible to unite these two concepts in the concept of customer perceived quality. As such, only customers define quality, which occurs where services are supplied by a firm to specifications that satisfy customer requirements. Efforts are made to differentiate the objective measures of quality form those measures which have their basis in more subjective customer perceptions. The expressive aspect and instrumental

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Check Your Progress

4. List the elements incorporated in the Model of Buyer Behaviour.
5. Enumerate the eight different types of customer demands for services.
6. What are the five stages of relationship development?

quality are the two significant dimensions of service quality. The former is associated with the psychological or **intangible** aspects of the service and the latter refers to the physical aspects of a service.

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More recent studies identify technical quality and functional quality as the two principal components of quality. The former has to do with the relatively quantifiable service aspects, which both the supplier and the customer can measure. For instance, the waiting time at a super market, check-out, reliability of train services, etc. However, because the producer and the consumer directly interact in the case of services, the manner in which the technical quality is delivered also influences the consumer. This is functional quality, and unlike the elements of technical quality, it is impossible to measure it objectively. For example, factors such as the perception of the customer with regard to the staff's handling of queries and the environment in which the queue is formed influence the functional quality of a check-out queue at a super market. The customers' perception of service quality is also affected by the corporate image of the services, which has its basis in both functional and technical quality.

The definition of quality as the degree to which customer requirements are matched by a service does not clarify exactly what those specifications are. Because of the lack of easily identifiable criteria for evaluating service quality, it becomes more difficult to articulate customer needs and communicate the degree of quality that is being offered. The quality of services is a far more abstract concept than the quality of goods, in which case, the technical aspects of quality are emphasized more. In other words, consumers hold abstract expectations with regard to quality. Consequently, they judge the quality of a service as the degree to which these initial expectations are matched by the perceived delivery of the service. Thus, if the expectations are low to begin with, then even a service of mediocre standard might be perceived as of high quality and if the expectations are high, then the same degree of quality may be considered low. More research needs to be carried out before the processes that determine the formation of service expectations among customers can be understood. Quality is usually evaluated against three levels of expectation: the desired level of service (what the customer wishes for), the adequate level of service (the standard that might be accepted by the customer) and the predicted level of service (what the customers believe to be the most likely possibility of the actual occurrence).

The quality of the service is antecedental to customer satisfaction, which in turn is important in terms of its affect on the customers' purchase intentions. It is evident from empirical evidence that purchase intentions are affected more by customer satisfaction than quality.

Since services are usually produced and consumed at the same time, it becomes difficult to analyse service quality. There are two interfaces between the production and consumption of services. One is via the standard marketing mix, and the other is through buyer-seller interaction.

Consumers who buy manufactured goods encounter the variables of only the conventional marketing mix of the manufacturer. Since the process of production of goods cannot always be seen by a consumer, it cannot be utilized as a criterion for assessing the quality. Contrarily, the result of service inseparability is that the process of production is viewed as a criterion for quality assessment. Given that services are **intangible**, variable and inseparable, creates a problem for the management of service

quality in that a set of buyer/seller exchanges emerges and no two services are performed in the exact similar manner.

4.4.2 Researching Service Quality

An important factor resulting in the poor performance of service firms is lack of knowledge of the expectations of the customer. Although a number of firms are eager to provide quality service, they fall short because they do not accurately understand the customer requirements. This understanding is complicated still further by the lack of well-defined cues, unlike in the case of goods. Marketing research elicits some information about customer expectations and service perceptions. Service organizations should ask the following key questions about their customers: how is service delivery perceived by customers, what service levels are expected by the customers with regard to the features of a service, what are the service features that are regarded by the customers as important, etc.

For the effective management of service quality, the marketing research programme should be:

1. **Shared with employees:** It becomes possible to improve the performance of employees in terms of delivering service quality by acquainting them with the outcomes of the customer expectation studies and complaint analyses.
2. **Undertaken with employees:** Since in the service sector, the staff are closer to the customers than the management, asking them about their problems, encouraging them to suggest ways to improve the services and identifying their requirements and finding out their personal motivational sources becomes an important task.
3. **Ongoing:** In view of the constantly changing customer expectations and perceptions and the evolving nature of the services provided, it becomes necessary to continuously administer a service research process in order to identify and immediately act on any change, if required.
4. **Varied:** Each research is limited in its own way. Therefore, a variety of quantitative and qualitative techniques are used for achieving comprehensive insight into a problem, as explained below:

(i) Regular Customer Surveys

Surveys measure the level of satisfaction that customers experience from service providers. The growing variety of competing services available now as well as the customers' increasing awareness of the fact that they are in receipt of a service for which they pay a price whether directly or by means of taxes has led them to expect a consultation with them on the part of the service provider and has resulted in their clearly voicing their opinions about the degree of satisfaction provided.

Members of the public are in constant receipt of literature from an extensive variety of service providers requesting feedback on the quality of service received by them. For instance, the passengers of an aircraft are asked to fill out questionnaires while returning from a vacation. The recipients of such surveys are usually asked to set down the complaints they might have regarding the service offered and suggest ways for improvement. The people assume that the service provider will use this data for taking remedial action in case of expectations not being met. However, a number of

such surveys are spurious and characterized by a lip service approach to marketing research and the issue of quality service.

(ii) Customer Panels

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Constant information on the expectations entertained by customers is provided by customer panels. A group of customers consisting of regular users is brought together by the service organization to study their impressions of the service quality.

They may also be used for monitoring the introduction of revised or even new services. These customer panels perform the role of early warning systems for emerging matters of significance and can be used to anticipate problems and act on them in time. They are used by retailers for monitoring the level of service provided by them and for contributing to research in developing new products. But this method of research depends for its validity on the extent to which the consumers are represented in their entirety by the panel. Thus, during selection, it is important to make sure that the demographic/economic/social/frequency of use characteristics possessed by the panel is similar to the characteristics of the population of customers under analysis.

(iii) Transaction Analysis

This is an evaluative research methodology that tracks the satisfaction levels of individuals with regard to the specific transaction that they have lately been involved in. This aids the management in judging the current performance, especially the satisfaction of customers with the employee they have interacted with, along with their overall satisfaction with the service. The usual manner of carrying out a transaction analysis is to mail questionnaires to individual customers following the completion of a transaction. This research is also beneficial in that it is capable of associating service quality performance with individual contact personnel, thereby linking it to a system of rewards and incentives.

(iv) Perception Surveys

Certain quantitative and qualitative research methods are combined in perception surveys. It is used to develop future marketing strategies. The aim is to achieve a understanding of how consumers view an organization to get the firm to see itself as clients see it. The initial qualitative stage identifies the attitudes of past, present and future clients towards the firm as well as how the firm is perceived by the community at large. Group discussion and/or in-depth interviews are used for assessing the perceptions of customers at this stage. In the quantitative phase clients are asked to judge the company's performance using a battery of attitude statements. Perception studies also include an analysis of the perceptions of firm's employees.

(v) Mystery Shoppers

In this method, the standards of providing the service are audited, especially the extent to which the staff are involved in providing these services. The task of making certain the quality of the service is complicated by the necessity to overcome the fact that the staff do not always conform to the performance guidelines. When employees are unwilling or unable to achieve the desired level of service performance, a service gap results. Mystery shoppers can prove to be instrumental in monitoring the degree to which the staff are successful in actually meeting the specified quality standards. Service

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firms are visited by trained assessors, who send back reports of their observations. It is necessary to tailor the audits to the particular requirements of a company and emphasize the issues that need to be evaluated. The research firm and the client collaborate to determine the format of the enquiry.

It is necessary to stress the constructive nature of this technique as the staff may mistake the mystery shopper to be an undercover agent sent by the management to spy on them. Correct application of the technique may prove to be useful in allowing the management to discover what is actually occurring at the level of customer interaction. Shopping surveys must be consistent, objective and carried out independently. The assessors should be properly trained, especially in techniques of observation, so that they can tell an acknowledgement apart from a greeting.

(vi) Analysis of Complaints

Customers usually voice their dissatisfaction by complaining about the service provided. In the case of a number of firms, this is the only means of staying in contact with the customers. Customers can make complaints directly to the provider or indirectly through intermediaries or watchdog bodies. Customer complaints referring to instances of what is deemed poor quality service are dealt with constructively as they double as a source of data, based on which policies are formulated to improve the quality of the service. At the same time, it must be recognized that the complaints made by customers are not an adequate source of information. This is because the majority of customers refrain from complaining, continue to wallow in their dissatisfaction and communicate this dissatisfaction to others. Some customers simply switch to other suppliers and fail to provide any potentially valuable data regarding the factors that resulted in their switching over to another company.

In truly market-oriented service firms, complaint analysis forms a useful indicator of the point at which the service delivery process seems to breaking down. Complaint analysis performs a significant role as a part of the overall programme to stay in contact with the customers. Constantly keeping track of the complaints can be a comparatively cheaper source of data that enables companies to review the matters of concern most important to customers on a continuous basis and take remedial action for any apparent problem. Once the complaints are received by the company, the staff can directly contact the customers and interact with them about issues that are of concern to them. Besides extracting the views of the customers on these specific concerns, the company can also attempt to elicit their opinion about customer services in general. British Airways setup a facility for customers to air their grievances on videotape at Heathrow Airport, allowing them to alleviate their pent-up feelings, while at the same time acquiring useful information on which to act.

(vii) Employee Research

Undertaking research amongst employees gives them an opportunity to air their views regarding the provision of services and their perception of how they are received by the customers. Formal feedback can be obtained from the staff through staff suggestion schemes. The suggestions made by the staff with regard to providing the service more effectively/efficiently play a significant role in enhancing the quality of the service. Researching the employee requirements can be useful in identifying the policies that can enhance their motivation to deliver high quality service. Thus, focus groups and

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interviews could be utilized to collect qualitative data on the motivations, wants and needs of the employees and their attitudes towards policies, benefits, working conditions, etc. This can be followed up with appropriate quantitative analysis that involves the personnel in the research process. For instance, videos of interviews and group discussions with customers could be shown to them and then circulated along with the research findings to aid in improving their appreciation of the issues concerned with the quality of a service.

(viii) Similar Industry Studies

Another useful source of information is the nature of the expectation that the customer entertains with regard to quality in other similar service industries. Customer needs may be the same between different industries despite the difference in the service products being offered. A number of common dimensions can be found amongst the various industries that are applicable to services in general, such as, friendliness, a pleasant environment and a competent and courteous staff. Investigating the nature of service provision in other related spheres and drawing upon the findings of available research can be quite beneficial for a service firm. The service firm should attempt to find out what is known in the service sectors that have analysed and responded to customer requirements in the past. It should also try to identify whether the same applies to an industry that has taken up a customer-led approach only recently. For instance, the research and practices of hotels and catering organizations can indicate a lot about certain aspects of a hospital service. Many service organizations that have been operating outside the private marketplace for many years can derive a number of benefits from comprehending the operations of their counterparts in other countries that have been able to openly market their services in freely competitive markets.

(ix) Intermediary Research

Service intermediaries have a valuable role to play in the service delivery process. The focus of research into intermediaries has been on the following two aspects:

- In cases of the intermediaries forming a significant part of the process of service delivery, it is the intermediaries' performance that determines the quality perceived by the customers. For instance, the perceived indifference or slowness of ticket agents can tarnish the perceived quality of an airline. The mystery shopper research methodology can be used for monitoring the standard of quality that the intermediaries deliver.
- The position of intermediaries in terms of their being co-producers of services is further down in the channel of distribution, and this places them in a position that is closer to the customers. This enables them to present valuable feedback about customers' perceptions and expectations.

Quality is a complex concept which cannot be satisfactorily measured by a series of isolated ad hoc studies. Service organizations need to acquire more knowledge about their customers with the help of a market research oriented approach that focusses on customer perceptions and expectations. There are two basic dimensions of service provision outcomes and processes. The only factors that are relevant in determining service quality are those that customers perceive as being important. Customers alone can be the judge of quality; no other judgements are relevant. Determining what is

expected by a customer from a service as well as identifying the characteristics that describe service in general (i.e., the definition of service in the customer's mind) is important. Instruments must be developed for measuring the customers' perception of the quality of a service against their expectations.

4.4.3 SERVQUAL

Service organizations make use of the SERVQUAL technique for understanding their customers' perceptions and expectations. The basis for SERVQUAL is to be found in a generic 22-item questionnaire aimed at covering the following five aspects of service quality:

- **Empathy:** Easy access to employees, good communication and customer understanding
- **Responsiveness:** Promptness, willingness to help
- **Assurance:** Competence, courtesy, credibility and security
- **Reliability:** Dependability, accurate performance
- **Tangibility:** Appearance of physical elements

Customers are requested to fill out the 22-item questionnaire having to do with their perceptions and expectations, along with a series of company specific statements regarding service delivery. The respondents assign scores to each instance on a Likert scale ranging from strong agreement to strong disagreement. Additionally, they are asked to evaluate the relative importance attached by them to each dimension of quality. They are also asked to comment on their impression of the service along with their overall experience of it. To measure the level of customer satisfaction for a service provided by a particular company, the results of the perceptions and expectations need to be calculated for each customer. The company can derive the service quality by subtracting the expectation scores from the perception scores, either unweighted or weighted to take into consideration the comparative significance of every dimension of quality or the relative importance of different customer groups. The result of a one-off study aids the company in deciding whether the expectations of the customers have been exceeded or not.

The results of SERVQUAL can be employed for identifying the various facets or components of a service which the service organization performs particularly well or poorly. It may further be utilized for monitoring the quality of the service over a period of time and for comparing the performance of the firm with the performance of rivals. The information thus collected can be used for improving the firm's position vis-à-vis constantly surpassing the expectations of the customers. Demographic data, together with exception-perception results can be used for facilitating customer segmentation. The SERVQUAL model highlights the difficulties in ensuring high quality service for all customers in all situations. It identifies the following five gaps between the service level expectations and the perception of actual service delivery:

Gap 1: The first gap is between the expectations of the consumers and the perception of the management. The management may believe that it knows exactly what is required by the customer and go on to deliver this whereas actually, the expectation of the customers may be for something else.

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Gap 2: This gap emerges from the difference between the perception of the management and the service quality specification. Service quality specifications may not have been set by the management, or not clearly stipulated by it, or the set specifications may be unachievable.

Gap 3: This has to do with the gap between service quality specifications and service delivery. Lack of proper management or unforeseen difficulties may result in the service provider not meeting the service quality specifications, which may be the result of human error or the mechanical break down of facilitating goods.

Gap 4: This gap lies between service delivery and external communication. The customer might be dissatisfied with the service because of extraordinarily high expectations emerging from the communication efforts of the service provider. Customers are dissatisfied when the expectations set out in the organization's communication are not met by the actual delivery.

Gap 5: This final gap exists between the perceived service and the expected service. The initial expectations of the customers are not matched by their perception of the actual service delivery.

4.4.4 Setting Quality Standards

Service level specification has an important role to play in conveying the standard of quality that nay be expected by the consumers. It communicates the standards that the service organization expects from its personnel. The way an organization promotes itself conveys a general notion about the level of quality that is sought to be delivered by it. The following ways assist in stating more specific standards:

- Organizations rely on their business terms to provide a basis for the determination of the level of service that they must deliver to the customers. Usually, they function with the aim of protecting customers from extraordinarily poor services instead of promoting high standards of excellence proactively. For instance, very few promises are made by tour operators about the quality of their service except to compensate for delays that go beyond specified levels.
- Customer charters that are worded generally exceed the minimum level of business terms as the performance standards that are sought to be achieved in dealing with the customers are stated in them. Charters are usually published by banks specifying (in general terms) how they will conduct accounts and handle complaints.
- The organization may offer specific service performance guarantees in terms of service outcome. For instance, parcel delivery firms frequently guarantee the delivery of a parcel within a specific number of days and if they are unable to come up to this standard, they agree to compensate the client. At times, the focus of the guarantee is on how the service is produced instead of the final outcome. For instance, standards are set by building societies for the time that will be taken by them to arrive at a decision on mortgage applications. Although the publication of specific guaranteed performance to the customers can provide numerous benefits, there may also be adverse consequences in the form of claims for misleading advertisement or heavy compensation claims in case of failure to perform. Therefore, a number of highly-specific targets find themselves

confined to performing the internal function of controlling and monitoring the staff instead of providing guarantees to prospective customers. For instance, though targets are set by a bank with respect to quality standards such as making available functioning ATM machines and short customer-queuing times, no guarantees are given about the specified level of service to be provided to the customer.

- A number of service organizations are members of professional or trade associations and integrate the code of conduct set by the association into their own offerings (e.g., doctors, solicitors). Certain minimum standards are specified by them and attempts are made to ensure that the quality of the service provided does not fall below this level. These codes of conduct reassure prospective customers and set the minimum standard for employee performance.
- The adoption of the Indian standard (ISI), ISO, etc. has more applicability. High service quality levels are not guaranteed by most of these standards. This is granted to organizations that have a management system in place to ensure consistency in the quality standards. However, deciding whether this consistent standard is high or low is a matter of subjective opinion.
- In the case of some public sector services operating in monopolistic environments, the standards of quality may be externally imposed. There may be a regulatory authority possessing the authority for setting specific service targets (e.g., regulatory bodies for electricity, telephone etc.).

4.4.5 Managing the Marketing Mix for Quality

Service quality management ensures that the gap between consumer expectations and the perceived services delivery is as small as possible. There are a number of important dimensions to this task. First, the marketing mix formulation and its communication to potential customers must be as realistic as possible. Exaggerated claims lead to high expectations that an organization may not be able to meet and thus the service is likely to be perceived as being of poor quality.

Secondary non-marketer dominated factors such as word-of-mouth information, customer tradition, etc. also need to be considered as their presence may have the effect of increasing expectations. There exists a dynamic relation between the perception of customers and their expectations. It is not enough to merely maintain the customers' level of perceived quality, particularly in the face of rising expectations. Therefore, the task of marketing mix management is to close the quality gap over a period of time either through an improvement in the service offering or by keeping down the expectations of the customers.

Every aspect of the marketing mix is affected by quality. It is not possible to isolate the decisions regarding service specifications from the decisions having to do with the other components of the marketing mix. All decisions affect the perceived standard of service delivery as well as the level of customer expectation.

The expectations of consumers in terms of the quality of the service are affected by the promotion decisions of the company. In the instances of competing services being evaluated and selected based on marketer-dominated sources of promotion, the communication medium and the message itself could go a long way in meeting customer quality expectations. Promotions set expectations which organizations struggle to meet.

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But sometimes, the image that the promotion creates can in fact supplement the perceived service quality. This usually happens in the case of goods where the products are supplemented by the **intangible** image. For instance, customers may believe that a certain cold drink is of higher quality than another cold drink having the same technical quality, but promoted differently.

This happens less frequently in the case of services because customers are more involved in the process of producing and consuming a service and are therefore afforded better opportunities for judging the quality of the service. Nevertheless, the promotion activity does supplement the perceived service quality for certain publicly-consumed services. For example, promoting the gold credit card may add to a customer's sense of having bought a prestigious and exclusive facility, the value of which would not have been recognized if the additional prestigious value of the card had not been promoted.

The expectations of customers as well as their perception of the quality of a service are affected by the pricing decisions of the service firm. All other factors being equal, prospective customers can use price as the criterion to judge the quality of a service. For instance, if two restaurants outwardly appear similar, but different prices are charged by them for the same meal, customers would assume that higher service quality would be provided by the restaurant charging the higher price, which they would then come to expect in the service delivery. They would then proceed to assess the service delivery against this benchmark.

The level of quality that can be built by a service firm into its offerings can be influenced by the price that is charged for the service. In terms of price positioning, it is feasible to conceive of a line from high price/high quality to low price/low quality, but it is not possible to sustain high price/low quality and low price/high quality for long. Low prices result in inadequate margins for providing high service quality.

The quality expectation of he customers and the actual service performance can also be influenced by the place decision. High quality agents selling low quality services may give rise to heightened quality expectations and if this is followed by poor delivery, the agent's own image may get tarnished. The customer's perceived quality of the service can be affected by how the service delivery is initiated, processed and followed up by the intermediary. Recruiting and monitoring the network of intermediaries to encourage them to share the principal service organization's commitment to service quality is an important aspect of the quality management process. The employees form a significant element in the manner in which consumers perceive functional quality. Therefore, the interaction between the buyer and the seller assumes importance in service quality management. As such, it becomes necessary to recruit, train, motivate and control the employees as part of the marketing mix as the personnel who directly perform a service are in the best possible position to observe and identify any impediments to quality.

4.4.6 Organizing and Implementing Service Quality

The quality of a service is not a matter of chance. Strategies that ensure high quality standards and consistency in the service delivery need to be developed by service organizations. The following requirements are necessary for this:

- A customer-focused strategic concept.
- A track record of the top management's commitment to quality, i.e., giving the importance to quality indicators as the financial ones.
- The setting of high standards and communicating these expected standards to employees.
- Systems for monitoring performance. Top service firms regularly evaluate their own and their competitors' performance.
- System for satisfying complaining customers. It is important to respond quickly and appropriately to customer complaints.
- Satisfying employees as well as customers. The significance of contact personnel and the role of 'internal marketing' are understood by successful service firms, i.e., (i) The best possible people can be employed and retained (ii) The best possible work will be done by them.

Service management entails maintaining a consistent standard of quality. In labour-based service, this becomes difficult on account of inherent variability of personnel as compared to manufactured goods. Inseparability of most services does not generally allow an organization to undertake quality-control checks between the points of production and consumption.

Total Quality Management (TQM)

TQM is an approach to improve the effectiveness and flexibility of an organization as a whole. It is a multi-disciplinary approach. TQM organizes and involves all employees in all activities, and all functions and at all levels. The activities of every staff member has an impact on the quality received by customers, including non-contact personnel, whose actions in activities such as processing invoices or orders could nevertheless have implications for customer satisfaction.

An important aim of TQM is the generation of widespread awareness of customer needs among employees, and standards of quality that are expected by customers. In addition to meeting customer requirements effectively, TQM is concerned with the efficiency with which these requirements are met. TQM lays stress on reduction of waste - defined as anything that neither adds value nor contributes towards meeting customer requirements. One target for cost reductions is transaction cost which represents the cost of governing production systems.

Within services sector, the concept of just-in-time (JIT) can be extended to the deployment of staff whereby extra personnel are brought in at short notice to meet peak demands. TQM encourages employees and functions areas to regard themselves as providers and customers of other departments.

Quality Circles (QC)

Quality circles often work within a TQM framework and consist of small groups of employees meeting together under supervisors or group leaders for discussing their work in terms of standards of service production and delivery. In case QCs are used in the delivery of services, the marketing aims of the service organization must be incorporated into the TQM package and QC agenda. QCs are bet suited for high-contact services requiring substantial personnel-consumer interaction. The idea is to

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Total Quality Management: TQM is an approach to improve the effectiveness and flexibility of an organization as a whole

Quality circles: Often work within a TQM framework and consist of small groups of employees meeting together under supervisors or group leaders for discussing their work in terms of standards of service production and delivery

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bring together the front-line staff, who are better positioned for identifying the quality weaknesses in terms of their effect on the customers, and the operational staff that can impact service quality though they do not directly interact with the customers. By collaborating with each other the personnel can recognize problems and suggest solutions for them. For example, QCs for garages could include the reception staff interacting with the customers and the mechanics responsible for producing the services.

To achieve success, it is necessary for the QC leader to display an inclination towards listening and acting on the concerns brought to the group's attention by any of the QC members. This is imperative for the sustenance of the QC. The QC can continue functioning only if the members sense that their involvement is effective and real. For this, a two-way communication process is a must within the circle. The purpose of the quality circle is defeated if it functions merely as a routinized listening session. This could lead to circle member suspecting it of being only another tool for management control. In such a situation, the active involvement of the members in actually improving the quality of the service may be lacking, even if they agree to be subject to managerial control.

Quick and accurate feedback is required by the QC members on the ideas they might have come up with for solving certain operational problems. Once the reasons for failure in attaining the marketing objectives have been identified by the QC, the members should then comment on the suggestions in a constructive manner. The effectiveness of QCs can be improved if staff-reward mechanisms are linked to performance.

Reducing Dependency on Human Resources

In most service industries, opportunities exist to replace potentially variable human inputs with relatively predictable machine-based ones. While this may result in a loss of customisation to meet the needs of individual customers, the quality of service outcomes and processes can generally be made more predictable. At one extreme, human contact personnel can be dispensed with completely (telephone banking) while in other cases equipment is used to moderate the behaviour of contact personnel (scripted computer-generated messages used by many airline reservation staff).

4.5 CUSTOMER ACQUISITION AND RETENTION

In a broader sense, all those who are involved in the process of transfer of ownership of a product from the production centre to the consumption centre are customers, and not merely the one who ultimately enjoys the benefit of a product or service.

There are three terms normally used in this context, viz., the buyer, the consumer and the customer. In a very strict sense, the buyer refers to the one who buys a product or a service and it is immaterial whether he or she consumes it or not. A consumer is one who consumes a product of an organization, and it is immaterial whether he or she is involved in the purchase activity or not. Customer is one who repeatedly buys from one source. In the context of this book, the term customer comprises the meaning given to all the three terms and no distinction is made among them. They are interchangeably used as is the norm in practical business situations.

From among the prospective customers, the organization identifies customers, in terms of their purchase intention, as most promising prospect to the least promising

Check Your Progress

7. List the variety of quantitative and qualitative techniques used for achieving comprehensive insight into service quality problems.
8. What are the five aspects of service quality covered by SERVQUAL?
9. What is the main objective of total quality management (TQM)?

prospect. This categorization must follow relevant strategies to convert the prospects into customers. The sequence may be illustrated as:

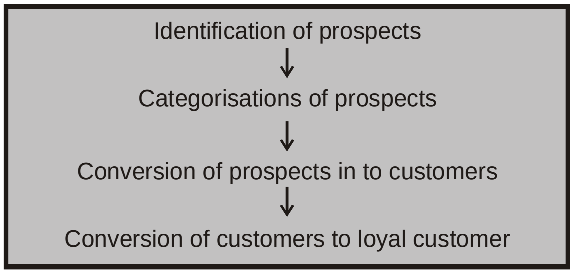


Fig. 4.1 *Conversion of Prospects into Customers*

In order to reach the loyal customer, a careful marketing action plan should therefore be evolved and implemented effectively.

4.5.1 Process of Brand Choice

The process of brand choice is a purposeful action plan of selecting a specific brand from the total brands available. The process will take the following sequence.

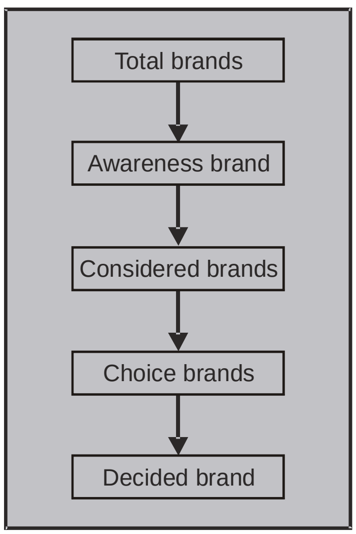


Fig. 4.2 *Process of Brand Choice*

The criterion that guides the action plan is matching the expectations of customer with what the brand offers. The expectations are shaped by the influence of various factors that are interrelated and not easily identifiable or predictable.

The factors influencing the process of brand choice may be broadly categorized into internal factors and external factors:

Internal factors: These factors emerge from or within the customer concerned and they include:

- Perception
- Motives
- Personality
- Self-image
- Attitude
- Learning

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External factors: These factors emerge from the environment external to the customer concerned and they include:

- Culture
- Group behaviour
- Family
- Role relationship
- Economic status
- Lifestyle
- Communication

In addition to the above, age, sex, location factors, marital status, occupational status, etc, of the customers concerned also influence the brand selection process. A brief explanation of the factors mentioned above follows.

Perception refers to the individuals' subjective way of interpreting and making sense of a service product. As far as the potential customer's perceptions are concerned, each customer might interpret the brand concept in his or her own way. So the various attributes of a brand are perceived differently and such perception can have severe implication in the ultimate brand selection. A customer, if he or she perceives a brand as a mismatch to his or her expectation, eliminates the brand from the selection process. It is to this extent that the perception of a customer plays a key role in the brand selection process.

Motives are the reasons that impel people to behave in a specific way. Motives govern a customer's actions of initiation and direction towards a brand choice. These motives may be categorized into two groups, viz, rational motives and emotional motives. It falls in the category of rational motives, if the customer has a meaningful reason for his or her actions. Emotional motives on the other hand comprise of sensations, such as curiosity, pride, frustration, excitement, anxiety, sentiments, and so on. Rational or emotional motives in isolation or the combined influence of the two influence the brand selection process at every stage.

Personality is one more vital factor influencing the brand selection process. Personality of the customer concerned gets reflected at each and every stage of the total brand selection process. Personality normally refers to the sum total of the individual's characteristics, for example, how he or she acts and reacts in a given context. On the basis of personality profiles of the respective customers, the brand selection process develops. It is likely that the customer might relate his or her own personality with the service brand's image. As long as there is identification between the two in the customer's mind, it is more likely that the customer will keep his or her association with the service brand going.

In association with personality, the other factor influencing brand selection process is the self-image of the customer concerned. Each customer has his or her own mental framework with regards to his or her personality traits, likes, dislikes, aims, ambitions, and similar aspects. The combination of these and similar related factors pertaining to the individual customers governs their entire behavioral pattern, and also the brand selection process. Self-image may further be categorized into an 'actual self image', i.e., what a customer actually sees himself or herself, an 'ideal self image', i.e., what type of self image he or she would like to attain and a looking glass 'self image', i.e., how others perceive of him or her. Against this background only

customers involve themselves in the brand selection process and arrive at a brand that corresponds to their self image.

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Attitudes are related to a customer's thinking, feelings, likes or dislikes, inclinations towards accepting or rejecting an item, event or a service. Attitude is formed by the combined influence of the customer's beliefs, values, and intention to behave in relation to a given context. Attitude is the mental readiness of the customers to act favourably or unfavourably towards an offered service as the case may be at a given point of time. Attitude of an individual plays a definite role in the brand selection process.

Learning is another important internal factor influencing the brand selection process. Learning refers to the process of acquiring knowledge and gaining experience. The knowledge so gained is used in the brand selection process. Individuals right from the childhood involve themselves in the learning process and store the knowledge gained out of learning, that eventually influences the brand selection process. Again, the learning may be intentional or incidental. Irrespective of the nature of learning and what has been learned, learning does shape the customer's brand selection process.

The process of brand choice is influenced by a number of external factors also. Culture is one such external factor. Culture is the most integral aspect of the behaviour of a customer. Culture in a sense is the individual expression of the personality of the individual concerned. Culture is the sum total of accumulated traditions, values, belief, attitudes, and other related aspects, which are inherited from generation to generation. Culture guides the actions of customers, based on which the customer adopts, resists, and repeats his or her choice of service brand. In view of cultural interaction, there is always scope of changes in the ultimate brand selection process.

Group behaviour is another external factor influencing the brand selection process. Each customer is a part of a specific group. No customer is an island by himself or herself. The group to which he or she belongs influences the brand selection process. Once an individual identifies him or her with a group, the behavioral pattern adopted by them seeks the group's recognition and approval. As such his or her individual action is governed by the overall characteristics of the group with which he or she identifies himself or herself. The group may be a primary group (associated by blood), a secondary group (associated by contact) or a reference group, i.e., a set of individuals or an individual who is considered as the role model and with whom the customer would like to identify himself or herself.

Family is another external factor that plays a key role in the brand selection process. A family is usually comprised of husband, wife and child/children. Depending on who dominates the decision process, a brand selection process may be husband-dominated or wife-dominated or child-dominated or equally influenced by all. The influence of a husband in his wife's choice of brand, influence of the wife in the husband's choice of brand, and domination of children in both the husband and wife's brand selection process is also possible. Based on the child's behavioral pattern, the child may be classified as 'post-figurative'—where child's behaviour is determined by the activities of grandfather and grandmother (even forefathers for that matter) or it may be termed, 'pre-figurative'—where the child's behaviour is determined by the activities of the child's elders in the family, and 'co-figurative' - where the child's behaviour is determined by the activities of the child's peer group.

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The role assumed by the customer concerned also influences his or her brand selection process. Role is a set of behaviour that is expected from an individual holding a position while interacting with people. Generally a customer with respect to brand selection process plays six different roles:

(a) *Gate keeper:* Under this role, he or she is the one getting information regarding new brands, their availability and related aspects, and controls these received information.

(b) *Influencer:* The person is the one who influences the brand selection behaviour of the others.

(c) *Decision maker:* The person who decides what to buy, why, where, when, from whom and at what price.

(d) *Implementer:* The person who implements the decision.

(e) *User:* The person who avails of the service purchased.

(f) *Affected:* The person who experiences the consequence of others using a selected service brand. Depending on the role assumed by the customer, his or her behavioral pattern in the brand selection process is likely to differ. It is likely that one customer may have to play all such roles in the brand selection process. Further, the individual in the day-to-day life assumes different roles that vary with relation to his or her family, professional, social, religious associations and so on. The brand selection process is influenced by the role assumed by the customer as the requirement of each role differs.

The economic status is yet another external factor influencing the brand selection process. The income available to a customer may constitute two portions, viz, discretionary and non-discretionary. The discretionary portion of the income refers to that portion available which is spent at the discretion of the customer. In other words, it is the income available to be spent in his or her own way. On the other hand, non-discretionary portion refers to that portion that has to be compulsorily spent, irrespective of the willingness of the customer concerned. Examples for discretionary portions include entertainment related services. Examples for non-discretionary portions include medical services, educational services, etc. Depending on the economic status of the customers concerned, the two portions of the income constitute his or her total income and this influences the brand selection processes to a great extent. Consumers who are left to cover major portion of non-discretionary expenses will focus their attention on satisfying basic minimum needs with the help of brands that offer core benefits.

Lifestyle is another factor influencing the brand selection process. Life-style refers to the way in which individuals live their life. Their attitudes, opinions, and interest on several related aspects shape their lifestyle. Lifestyle is consistently changing depending on the life cycle of the individuals, their roles, relationships, economic status and other related factors. In tune with their lifestyles, the customers assume their choice of brands.

The role of communication is also important as regards arriving at the ultimate choice of a service brand. The communication mix of an organization normally constitutes advertisements, personal selling, and other sales promotional methods. Communication is the process of establishing commonality of thought between the marketer and the customer. In other words, the customer's action takes desired directions, and care

should be devoted in formulation of messages to be communicated, the media choice, and the retention effect. Different styles and appeals are followed in the communication system, so as to reach out to the customers most effectively. Those styles and appeals are based on gender, humor, entertainment, real-life situations, fears, emotions, sentiments, reference power, and so on. The communication must be integrated in the sense that whatsoever has been communicated, in any form, it must convey ideas and views only in one sense. Integrated communication avoids confusion and provides a sense of confidence to the target customers. This encourages the customers towards the desired goal as far as the brand selection behaviour is concerned.

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These factors along with several other similar internal and external factors play a definite role in the brand selection process. Having selected a service brand, the customer attempts an initial purchase. Based on the extent of satisfaction, an initial purchase could generate subsequent purchases and ultimately make him or her loyal to the service brand/organization concerned.

4.5.2 Customer Acquisition

Customer acquisition: The marketing tools employed to attract new customers is known as customer acquisition

The marketing tools employed to attract new customers is known as customer acquisition. Acquisition is a vital stage in building customer relationship. The marketing strategies implemented for customer acquisition as well as customer retention are similar, differing only in the manner they are used. Certain key issues connected with customer acquisition are dealt here.

Input for Acquisition

For the purpose of customer acquisition an organization is likely to focus its attention on the following as its major sources for providing input for acquisition:

- The suspects
- The enquiries
- The lapsed customers
- The former customers
- The competitor's customers
- The competitor's lapsed customers
- The competitor's enquiries
- The competitor's former customer
- The referrals
- The existing buyers

The 'suspects' is the segment of the market that represents prospective customers. Enquiries whether they are intentional or casual provide for a focused approach in the process of acquisition. Proper responses to enquiries are likely to result in customer acquisition.

The lapsed customers should not be neglected. They can be booked as new customers if the reasons for lapses are rectified suitably. Once a customer has purchased a service to fulfill a specific need and has then stopped buying from the particular service organization, he or she becomes a lapsed customer and should be encouraged to become a customer again, by marketing the organization's new offerings to fulfill the customer's emerging new needs and so on.

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The competitor's customers, competitor's lapsed customers, competitor's former customers and competitor's enquiries provide major inputs for acquisition. Customers, who always prefer more value for money every time, are naturally inclined to opt for alternatives. In this context, the competing organization can acquire its competitor's customers if the customers perceive that they would be rewarded with more value for money.

Referrals play a significant role and provide a strong base for new customer acquisition. It is likely that fresh customers will rely heavily on referrals from acquaintances rather than the organization's own promotional efforts. Referrals may be from within the organizations or from anyone outside connected to the organization including suppliers, bankers, consultants, etc.

Existing buyers may also be targeted for acquisition in the event of the organization expanding its range of services.

Requisites for Effective Acquisition

The organization should have a detailed database containing the classification of its target market and related details which may help in making the process of acquisition effective. Following are some of the requisites essential for an organization to be effective in its acquisition efforts.

(i) Providing a Win-Win Platform

It is necessary to develop and provide a win-win platform applicable both to the prospective customers as well as to the organization concerned. This would induce easy customer acquisition because of the benefits the customers might anticipate.

(ii) Initiate Forum for Communication

In service marketing, communication plays a vital role in the acquisition process. Communication has to be open and interactive in nature. This would enable prospective customers to come closer to the organization.

The organization should also ensure integrated communication, ensuring integrity and dependence every time the customer communicates. This instills confidence in the customers and would enable their movement towards acquisition.

(iii) Attempt to Minimize 'FUD'

The organization must effectively plan to minimize fear, uncertainty and doubts (FUD) that might occur in the minds of customers during the course of acquisition.

As far as an individual customer is concerned, prior to becoming a customer, he or she would be in the 'buy' stage of extended problem solving (EPS), in which the FUD influence would be at the maximum level. In the subsequent stages, namely limited problem solving (LPS) and routinized responsive behaviour (RRB), the FUD aspects gradually abate and the customer tends to become more and more loyal.

(iv) Projection of Benefits and Not Products

The critical success factor leading to customer acquisition is the number and value of the benefits that the organization provides to the customers. Customers do not make

their decisions solely on the services offered, which they can buy from any other service provider. They are interested in the supplementary or the augmented benefits the service might generate. If the benefits promised by the organization correspond to the expectations of the customers, then they can be easily acquired.

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(v) Contextual Application

Customers assume differing roles in various contexts, relating to their purchase and consumption environment. Those roles include being initiators, influencers, deciders, buyers and users of the service, and so on. The efforts towards acquisition are to be directed in tune with specific role the prospective customer plays in a given context. The organization should gather those details in relation to who influences, decides, buys, uses and so on. At times, the same individual would be playing all the roles. On other occasions, different individuals in a family or an organization would play different roles. The organization attempting to acquire customers should have total knowledge of these factors and has to set its approach accordingly.

(vi) Focus on Decision Process

The organization, for the purpose of acquisition, must focus its attention on the purchase decision process and the various factors that influence the process. The decision process has the following sequence of operation:

The purchase decisions are influenced by several internal and external factors. The internal factors include learning motives, perception, self-image, attitude, personality and the like, whereas the external factors include culture, society, religion, family life style, income level and the like.

These factors are to be studied and the attempt of acquisition should be suitably tuned.

(vii) Attention on Adoption Process

The product adoption by new customers differs depending on several connected factors. Generally, a very less percentage of the total number of customers would initially join in the adoption process at the introduction stage of the product. Such initial adopters are called innovators who are followed subsequently by early adopters, early majority, late majority and finally the laggards. The organization should evolve its customer acquisition policy after considering the adoption process.

(viii) Focus on Options of Prospective Customers

The options of prospective customers, in terms of various components of marketing mix and other related aspects, deserve serious attention. The organization should devote attention to find out the options available to customers in terms of product attributes, package, price, channel of distribution, promotion measures, and so on. Additional elements of service marketing mix, viz, people, process and physical evidence should be paid extra attention. There should be regular research on these lines, and based on the findings the offerings of the organizations are to be tailored so as to match the specific options of the prospective customers. This would help to enhance the acquisition rate.

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(ix) Building up Publicity and Public Relations

Publicity and public relation aspects deserve special focus. Both publicity and public relations help to boost the organization's image in the society, which in turn help to gain more customers within the organization's fold.

(x) Concentration on Existing Customers

Existing customers play an important role in acquiring brand new customers. Existing customers are valuable spokespersons whose views would be rated very high by the prospective customers. For this purpose, the organization should evolve appropriate rewarding and incentives schemes. Many organizations, which practice this method, find it very fruitful in their process of customer acquisition.

Process of Acquisition

The acquisition process constitutes the following stages:

- Enquiry
- Interaction
- Exchange
- Co-ordination
- Adoption

Each one of the above stages assumes a significant role in the acquisition process. At the enquiry stage, the prospective buyer undertakes a detailed enquiry with regard to several aspects pertaining to the organization, quality of service, nature of transaction and all other related aspects. Having stored the information, the prospective buyer passes on to the interaction stage, where he or she interacts with the organization, obtains additional information, and verifies already collected information.

Terms of exchange, mode of delivery and other related things are settled at the exchange stage. Further coordinated efforts on either side eventually enable the customers to adopt the service concerned, thereby completing the acquisition process.

Factors that Influence Acquisition

The application of the acquisition process explained above is influenced by the following:

- Type of buying
- Type of service
- Type of customers
- Economic environment
- Contextual operations

(i) Type of buying

There are two different types of buying: one, the rational and the other, emotional. Rational buying is a more systematic buying influenced by reason and logic. On the other hand, emotional buying (impulse buying) is influenced by the emotions of the buyer. It is likely that a customer involved in the rational buying would move from one stage to another systematically, whereas in emotional buying he or she may not do so.

(ii) Type of service

Acquisition also depends on the type of service. For instance, a customer is less likely to make a switch in case of healthcare services than in telecommunications related services. Accordingly, the significance of each stage of the acquisition process varies.

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(iii) Type of customers

Further, the significance depends on the type of customer, whether the customer is an individual or an organization. In contrast to the individual buyer an organization may have its own procedure to adopt a service, and the process of acquisition might vary depending on the organization's policy, culture, and related aspects. Also acquisition depends on whether the acquisition is a first time exercise or a repeated one.

(iv) Economic environment

The economic and environmental forces focus attention on the market conditions, the operations of the competing forces, supply and demand conditions, purchasing power etc. The acquisition process is likely to differ under conditions of limited brand choice and limited purchasing power, as compared to unlimited availability of brands and purchasing power.

(v) Contextual operations

The context of operation refers to the prospective buyer's intention, urgency, previous experience, specific benefit expected, life style of customer, and so on. The acquisition process is likely to differ as per the context of operation concerned.

The above aspects explained have an impact on the acquisition process. As such the organization has to pay attention to these aspects, by suitably managing its operations, which in turn leads to acquisition of more and more customers.

4.5.3 Customer Retention

Under the present context of competitive environment, the focus of the organizations is also on customer retention than simply on customer acquisition. **Customer retention** is the process of keeping customers in the customer inventory for an unending period by meeting the needs and exceeding the expectations of those customers. It is an approach that is used in converting a casual customer into a committed loyal customer. The following section focuses attention on several issues connected with customer retention.

Customer retention: The process of keeping customers in the customer inventory for an unending period by meeting the needs and exceeding the expectations of those customers

Why is Customer Retention Preferred?

Why at all should organization opt for customer retention? The answer lies in the inherent benefits an organization can get by retaining customers, which will explained later in the chapter. Customers come within the fold of an organization in the following ways:

- Customer by chance
- Customer by occasion
- Customer by choice
- Customer by repetition
- Customer by loyalty

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In the customer retention approach, the organization makes every effort to convert a customer by chance into a customer by loyalty. A retained customer who turns out to be loyal will shift his or her focus of relationship with the organization, from a mere transactional relationship to a relationship tied up with emotion and commitment, which will benefit the organization in the long run. Those customers by retention may prove to offer a benefit to the organization as:

- An asset
- An ambassador
- An experience shaper
- A winning edge
- A knowledge provider
- A spokesperson
- A driving force
- A caretaker
- A resource provider
- A partner

Customer retention would enable the organization to minimize expenses in terms of acquisition of new customers. Customer retention cost for an organization is considered to be less than that of the acquisition cost.

Customer retention enables a long-term relationship of mutual benefit both to the organization and to the customer concerned.

There appears to be close interaction between customer retention and customer loyalty. Loyalty is usually measured in terms of longevity of the patronage of customers. Loyalty that arises out of retention is a preferred state, as compared to loyalty of reluctant customers. A reluctant customer may also appear to be a loyal customer, which is a type of spurious loyalty or artificial loyalty forced by various factors such as situational, limited brand choice, limited income, limited supply, and so on. Customers who are not retained may even opt for shared loyalty, which is risky because the chances of brand switching are more likely in such cases. As such these loyalty status are not dependable. Moreover, a part of these customers engage themselves in the attrition process while being engaged in the loyalty process at the same time. On this line, loyalty based on retention is a better step.

Customer retention further enables customers to spend more and more on organizational offerings. Customers' share of business will increase. Accordingly, cost of serving retained customers would be less compared to serving fresh customers every time.

Retained customers help in spreading a positive image of the organization by word of mouth, which in turn helps in acquiring new customers to the customer inventory.

Further, it is likely that retained customers may be less price-sensitive. Considering the above aspects, there appears to be more profit potential for the organization by way of customer retention. Customer retention assumes significance in the light of the following facts generally reported through revenue analysis of various organizations, and as quoted by CRM experts Jay Curry and Adam Curry:

- Top 20 per cent of the customers deliver 80 per cent of the revenue.
- Existing customers contributes upto 90 per cent of the revenue.

- Top 20 per cent of the customers deliver more than 100 per cent of profits.
- The bulk of marketing benefit is often spent on people other than customers.
- Between 5 per cent and 30 per cent of all customers have the potential for moving upward the loyalty ladder.
- 2 per cent upward migration in the loyalty ladder means 10 per cent more revenue and 50 per cent more profits.

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Retention vis-à-vis Acquisition

The approach of the organization towards the retention process is expected to be different from the approach adopted towards the acquisition process. The difference is indicated in the following lines:

- During the acquisition process, the focus is on acquiring relationships whereas during the retention process, it is on nurturing the relationship.
- During the acquisition, the focus is on demographic, psychographic profile of the customers, whereas during the retention process the focus is also on past and present transactional profiles in addition to demographic, psychographic profiles, etc.
- While at the acquisition process, the customer is mainly driven by offer and incentives, at the retention process, however, the customer is driven by the type and extent of relationship maintained by the organization for furthering the relationship.

The organizations are expected to focus their approach on the above lines to have effective customer retention.

Stages of Retention

The position of retention in the overall life cycle of customer is exhibited in the following diagram. The life cycle of a customer generally covers the following stages:

- Acquisition
- Retention
- Attrition
- Defection
- Reacquisition

Acquisition is a stage in which customers are acquired for an organization's business. Customers so acquired would reach a state of either satisfaction or dissatisfaction. While satisfaction leads to retention, dissatisfaction leads to the stage of attrition. A satisfied customer who joins the retention stage might either proceed towards loyalty stage or in the event of being dissatisfied will join the attrition stage. The customer who joins the attrition stage will proceed to the stage of defection, unless he or she is satisfied. If the customer is satisfied, he or she would possibly join the retention process. Those customers in the defection stage may be reacquired, by means of appropriate marketing programmes, designed and implemented for the purpose of reacquisition.

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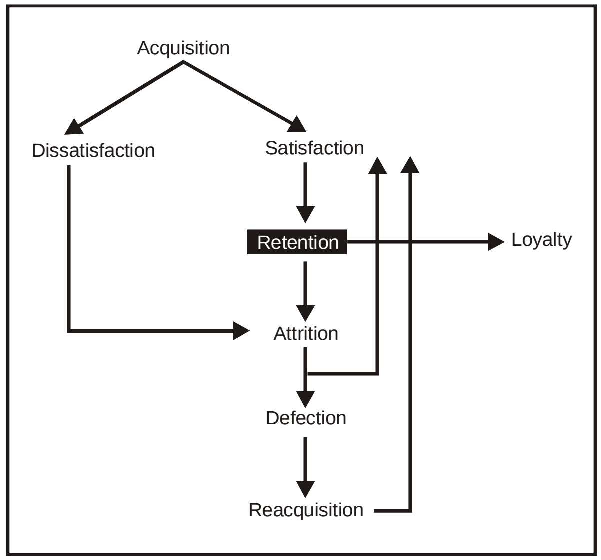


Fig. 4.3 *Stages of Retention*

The diagram exhibited earlier represents the normally expected move of a customer in the customer life cycle. There are exceptions to the flow of actions exhibited. For example, even satisfied customers need not move to retention if they perceive that the competitor's offering provides them with more value for the money they spend. Similarly, a dissatisfied customer need not move to attrition, because of several other factors such as his or her own personal reasons, preferences, forced choices, inability or unwillingness to assume the risk of firm switching, and so on. Effective control on attrition strengthens retention and minimizes defection.

Sequences in Retention Process

An organization focusing attention on retention may adopt the following sequence of actions:

- **(i) Exploring:** This step focuses attention on exploring the type of customers to be attracted for retention. The choice is based on value of customers' volume of business as they bring in regularity of purchase, profit margin and the like.
- **(ii) Evaluating:** It is a detailed analysis of the profile of the customers explored for the purpose of retention. This can be done in terms of the customers' purchase history.
- **(iii) Establishing Strategies:** At this point appropriate strategies are evolved which are customer-specific and that lead to retention.
- **(iv) Examining Feedback:** The results of the strategies implemented are examined on a regular basis to ensure their suitability in achieving the goal of retention.

An organization focusing attention on retention must also look into the factors that result in attrition. Attrition is a process of gradual wearing down. This is the stage at which customers, for various reasons, begin to question their continued patronage towards the service or the provider of the service. This is the step initiated towards defection. Attrition, if not arrested, leads to defection. Therefore, organizations must carefully observe attrition signals and enforce preventive measures, so that customers can be maintained at the retention stage.

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The attrition signals vary from service to service and from customers to customers. It includes the following:

- Increase in the number of complaints
- Decrease in the frequency of contacts
- Decrease in personal visits
- Decrease in enquiries
- Decrease in the volume of business
- Increase in the perceptual differences between customers and organizations on various aspects relating to the service.
- Decrease in the number of active buyers
- Decrease in the extent of interaction
- Decrease in the flow of communication.

Organizations must develop an appropriate mechanism to capture, classify, and evaluate the attrition signals and suitably react to prevent attrition.

Gaps in Retention

The gaps between service providers and users must be identified and bridged, which in turn would lead to a high degree of customer retention. The gaps are likely to take place in the following ways:

(a) Perceptual

(b) Procedural

(c) Promotional

(d) Positional

Further, the above can be detailed as:

- Gap between what the firm thinks a customer wants and what the customer actually wants
- Gap between what the firm thinks a customer has bought and what the customer perceives he or she has received
- Gap between what the firm provides and what the customer actually receives
- Gap between expected service and delivered service
- Gap between marketing promises and actual delivery
- Gap between what organizations perceive as suitable method of distribution and what customers receive
- Gap between what the organization perceives in its positional strategy and what is reached to the customers
- Gap between what is communicated by the organization and what is understood by the customers

The wider the gap between the organization providing the service and the user, the less is the rate of retention. Organizations are expected to audit their marketing-related issues on regular basis and initiate corrective measures to bridge the gap with regard to understanding customers' needs and meeting those needs effectively.

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Meeting Customer Needs and its Impact on Retention

Needs are expressions of customers, indicating the requirement to be fulfilled by a select service. Customers need services for their own reasons and not for those of the organization. Customers are not going to be interested in what an organization can provide, for the simple reason that the organization is providing it. Customers show interest towards a particular service only if they believe that their needs will be fulfilled by what the organization is offering them. Hence, organizations must focus attention on meeting the needs of the customers. Unmet needs of customers drive them from retention towards attrition.

Needs may be classified under three heads, namely:

- **(i) Basic Expectations:** These are the basic minimum requirements expected by a customer out of a service. Fulfillment of these needs keeps the customers in the phase of 'just satisfied'.
- **(ii) Articulated Expectations:** These needs are more than the minimum basic expectations from the service. Fulfillment of these needs gives 'more satisfaction' to the customers as compared to the previous level. The customers in search of more value for their money will want these expectations to be met as well.
- **(iii) Exciting Expectations:** Under this category, the organization delivers beyond the customers' expectations, hence increasing overall levels of customer satisfaction

An organization focusing on retention has to carefully move from fulfilling one category of expectations to the next. If certain conditions such as very less or no competition, limited purchasing power, etc prevail, even fulfilling the basic needs would be more than sufficient to retain customers, whereas under conditions of unlimited brand choice and the target customers having fairly good amount of discretionary income at their disposal, fulfillment of mere basic needs would not be sufficient to retain the customer. The organization should pay attention to the profile of the target market segment, its changing needs and accordingly make efforts towards fulfilling the same. This would yield better results in customer retention.

Further, in the process of need fulfillment the customers can be placed in any of the following divisions.

1. A customer who has a specific need and that has been fulfilled
2. A customer who has a specific need and that has not been fulfilled
3. A customer who does not prefer a need to be fulfilled (at least for the time being) and that has been fulfilled.
4. A customer who does not prefer a need to be fulfilled and that has not been fulfilled.

There are more chances of retention in case (1) whereas in case (2), chances of retention are very remote and attrition may take place. Cases (3) and (4) are open either for attrition or defection.

The organization must pay careful attention to the above divisions of customers and initiate appropriate action to prevent attrition and facilitated retention.

The process of managing needs is the most significant and challenging aspect as far as retention is concerned. This is particularly so in the context of needs that are constantly changing and the changes are never ending too.

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From the context of changes that are taking place in nature of needs, the needs can be classified into several categories.

1. **Based on life status:**
   (a) Life-maintaining needs
   (b) Life-enhancing needs
   (c) Life-changing needs
2. **Based on time:**
   (a) Existing needs
   (b) Future needs
3. **Based on conditions:**
   (a) Emotional needs
   (b) Rational needs

Role of Satisfaction in the Retention Process

Satisfaction is a state of mind, a customer feels satisfied when he or she perceives that his or her expectations and requirements are being met by the service provided by the service provider. The ultimate satisfaction a customer aims for has four major components, namely:

- Product satisfaction
- Peripheral satisfaction
- Ambience satisfaction
- Psychic satisfaction

The product satisfaction covers the core benefits provided by the service. It is related to the basic minimum function expected to be performed by the service.

Peripheral satisfaction is in addition to the core benefit. It adds value to the core service.

Ambience satisfaction is a blend of tangible and **intangible** factors which the customer experiences during the purchase and consumption process. The tangible aspects of ambience satisfaction include appearance of the servicescape, services available, competitive pricing, and the like. The **intangible** aspects include the courtesy extended by salespersons, the rapport generated and so on.

Psychic satisfaction is related to the satisfaction extended in tune with the individuality of the customer concerned. It depends more on the personality traits of the customer. A talkative customer will be more satisfied if the sales personnel engaged in lengthy dialogue. On the other hand, a reticent customer will get irritated by the same. A hesitant and unsure customer will be satisfied if all his or her latent and expressed doubts are clarified.

Each one of the above components of satisfaction contributes towards total satisfaction, which has direct linkage to customer retention. Therefore, it is imperative

that the organization carefully monitors the levels of satisfaction that their customers are enjoying, and initiate measures to enhance the same. This should be done on a continuous basis.

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Though there appears to be a direct correlation between satisfaction and retention, the condition cannot be taken for granted by any organization. Even a satisfied customer can join the attrition process if his or her level of expectations changes over a period of time. Therefore, organizations must keep on building up their ability to continuously satisfy their target customers so as to maximize customer retention. A suitably designed customer satisfaction audit would serve the purpose.

Added to this, a well-structured customer care programme will go a long way in gradually furthering the customer satisfaction in tune with their expectations. Customer care that exceeds customer expectation will lead to higher rate of retention. In the absence of due customer care, it is likely that the customers will be dissatisfied and will be left with three options, viz:

- Rejection
- Postponement
- Substitution

Any one of these options leads the customer to the attrition process. To prevent this, the organization should design and implement a well-designed, target segment specific (if not customized) customer care programme and thereby increase the rate of retention.

Characteristics of a retention-centred organization

- The organization should be a learning organization; it should always be learning in terms of the customer's view point, the customer's preferences, competitor's strategies, technological advantages, social, cultural changes, life style, spending and consumption patterns and the like. A learning organization can easily adapt itself to meet the growing requirements of the customers and thereby continuously fulfill their changing needs. This helps in retaining customers for long periods. An organization that has not assumed the characteristics of a learning organization may find customer retention difficult.
- The organization should assume the characteristics of a market leader in terms of new strategies to maximize the customers' benefits. The organizations that simply follow the prevalent business practices and strategies of a market leader will find it difficult to retain their customers. The customers constantly look for more benefits and value for their money and hence are more likely to fall in line with the market leaders in this regard.
- Organizations are expected to be much more innovative in their overall approach. In the context of customers, needs and expectations are constantly changing; a static approach will not be helpful in rendering customer satisfaction. Innovation, in terms of each component of marketing mix, relationship-building methods, incentives and rewards to customers proves to be more helpful in customer retention.
- The organization must develop an effective customer care programme. Each customer expects to be treated uniquely and with respect. The organization

should evolve an appropriate customer care programme, which provides personalized care to all the customers.

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- Organizations must have effective complaint management systems. The efficiency involved in managing complaints has a huge impact on the retention rate. The complaint management should focus on maximizing satisfaction, while minimizing the response time. Every customer has a level of acceptable tolerance time, within which he or she wants his or her complaint to be attended. Here the organization should take into account both registered as well as unregistered complaints.
- Organizations should develop the culture of total employee involvement towards providing total satisfaction to customers. For the purpose of providing total satisfaction, active and visible involvement of every employee from top to bottom in the hierarchy is needed. The organization should motivate each employee by impressing upon them the need for their commitment in rendering total customer satisfaction.
- Organizations must formulate business strategies that are customer-centric. In a service organization, it is important for the organization to operate as a customer driven organization rather than resource driven. This approach will eliminate or minimize the gap between the organization and its customers.
- Organizations must have the mechanism to track attrition signals as early as possible and suggest suitable remedial measures.
- Attrition factors identified at the earliest provide directions for formulating measures towards customer retention.
- Organizations should also focus their attention on lost customers. Effective measures are to be put forth to convert former or lost customers into present customers. This requires a mechanism to assess the dissatisfaction scores, attrition factors and related aspects.
- Organizations should practice total quality marketing with emphasis on internal marketing. The practice of effective internal marketing indicates the quality standard of the input process, output, and other related aspects as viewed by the organization's internal customers. This enables the organization to initiate steps towards improving the practice, procedure, process and performance of people associated with external customers. This attempt would obviously contribute towards customer retention.
- Organizations in addition to regular research should encourage hands-on research on customer related problems and there must be active deployment of customer data. This would help to minimize attrition and contribute towards retention.
- Organizations should encourage regular customer contact programmes. This would enable customers to take active part in the organization's activities, which in turn will lead towards customer partnership. This would further lead to increase the retention.
- Organizations should think in terms of target segment specific strategies, which would focus the attention of specific requirements of each group within the target segment.

- Organizations should develop effective communication systems with internal customers (employee), intermediate customers (middlepersons), and external customers (end users). Ineffective communication results in serious negative impact on customer retention.
- In a service organization, it is important to empower employees at various levels so as to arrive at appropriate actions in terms of improving the level of customer satisfaction during every service encounter.
- Organization should focus on effective team work, with the objective of customer retention. The team should be highly motivated and object oriented, viz, the object of increasing customer retention.

Organization should further emerge into a market-intelligent enterprise, which deviates from the traditional 'We make it—you take it' model to 'You need it—we make it' model. This approach requires close integration of market research data regarding customers' needs and the organization's objectives.

4.6 RELATIONSHIP MARKETING IN SERVICE MARKETING

4.6.1 Building Customer Relationships

An organization's strategies towards developing and maintaining sustainable relationship differ from one organization to another depending on certain factors. These include nature of business, its size, its market share, nature of product type, volume of sales, geographic concentration, socio-economic status and life style of the customers concerned, competitors' strength, and so on. The following sections provide a wide spectrum of strategies that are practiced by service organizations with national and global perspectives.

People

People within the organization have the basic role in developing and maintaining relationship with customers. Everyone in the organization must realize the fact that they are working towards satisfying customers. Everyone from the lowest to the highest level irrespective of their functional specialization and responsibilities must integrate their activities towards one of the main objectives of a service organization—customer satisfaction. The marketing department can coordinate integrated activity towards customer satisfaction. Obviously, people within the organization form the basis for building customer relationship.

Process

Process involves a logical sequence of activities right from the need identification of potential customers to their need fulfillment. Need fulfillment requires delivery of services with desired attributes. The process has to be derived from the customer's viewpoint, which paves way for total customer satisfaction. The performance of each service encounter must be objectively analysed and corrected in tune with the internal and external customers' expectations.

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Check Your Progress

10. What are the internal and external factors of brand choice?
11. Enumerate the factors that influence customer acquisition.
12. What are the stages of customer retention?
13. How does customer retention offer benefits to the organization?
14. What are the ways in which gaps occur in customer retention?

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Product

The service offered must constantly provide value addition. The expectations of the customers may always be on the increase due to various reasons. A customer satisfied with a given product may soon become an unsatisfied customer in view of the changes that take place in his or her own expectations. In the absence of physical evidence, it is hard to keep track of customer's expectations and its realization.

Organization

In order to build customer relationship, a service organization should be aware of the technology advancements and provide quality services in tune with the customer's expectations. It should concentrate on total customer satisfaction and respond to the requirements of the customers faster than its competitors. The responsive and learning nature of a service organization must build confidence in the mind of the customers that will go a long way in building the customer relationship.

Setting Satisfactory Service Standard

During service process, a service organization is expected to render services in all three phases, viz, pre-sales, during sales and after-sales. During pre-sales, when the customer develops expectations, the organization must ensure quality and availability of the service in time. In service process, what the customer experiences during the delivery of the service is of uttermost importance. During after-sales, when the sales are finalized, the organization must provide supporting services to their core services, for example, simplified complaint procedure, efficient service recovery system and so on. Such services, which are provided immediately, will bring total customer satisfaction.

Concentration on Competitors

An organization must focus constant attention on the competitors' performance, their strategy and style of operations and compare the same with its own performance. Customers always make this comparison, especially during the pre-sales phase, and decide their future purchase pattern. Such analysis done by organization would help in increasing its strengths and reducing its weaknesses. The organization's performance must always be a step ahead of its competitor and it must know that the customer feels the difference. As long as the customer understands and agrees with this comparatively better performance, the relationship will continue to exist.

Customer Analysis

Customers form the key component of service industry. Customers referred here include the present customers availing of the services of an organization as well as the prospective customers who are presently associated with the competitor organizations. These customers must be periodically analysed from several perspectives such as who constitute the customer inventory, level of customer retention, what makes them purchase a particular service, what their level of satisfaction is, where they are placed in the loyalty ladder, what makes them disloyal, and so on. This analysis is to be performed not only on the existing customers but also on the former customers, so that corrective actions may be instigated to retain current customers. Periodical customer satisfaction audit program would provide a meaningful insight into the customer attitude and their behaviour. It will further help in developing appropriate strategies to retain relationship

with the customers. For customer analysis and competitor analysis, the organization may depend on external agencies, so that an unbiased report can be obtained, which in turn would enable the organization to further minimize its errors.

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Cost Analysis

An organization must focus attention on the cost of the services. There must always be sincere attempts towards cost reduction without compromising on quality. The organization must perform value analysis and try to reduce costs and retain the same good quality or improve quality of the service. This would help to avoid switching over of the customer to other service-providing firms.

Concentration on the Paying Ability of Customers

Pricing decisions are to be governed not merely by cost-related factors. Before fixing price for a service, the paying ability of the potential customers must also be viewed. To some extent prices are to be adjusted in tune with the fluctuations in the paying ability of potential customers. In this process, an organization may have to sacrifice small portions of the profit tentatively. But, considering long-term relationship and future opportunity of earning, such price adjustment is worth practicing. If customers were lost due to price factor, then the organization would have to invest heavily in trying to get them back but with no guarantee for the same.

Knowledge on Purchase Behaviour Pattern

Organizations should have a thorough knowledge of the purchase behaviour pattern of their customers. The influencing factors of the purchaser decision process and the ultimate outcome are to be analysed in depth. The outcome of purchase decision may be any one of the four, viz., (1) purchase, (2) rejection, (3) postponement, (4) search for substitutes. The organization should have an idea about what percentage of customers arrive at what sort of a decision and appropriate steps are to be initiated towards making them buy the services on a continued basis.

Differentiation in Prices and Quality Standards

An organization may come forward to offer the same service at various quality levels with price variations. To meet a particular need, several varieties of the same service at differing price level must be available, so that the customer depending on his or her financial position may prefer at least one of the varieties available. This would prevent the customers from switching over to other cost-effective firms.

Focus on Reducing Dissatisfaction

Irrespective of the standard of the services offered by an organization, it is likely that the customers would reach a level of dissonance and seek remedial actions. An organization must be proactive to tackle such a situation. All unsatisfied customers will not come forward to show their displeasure. They may simply make a brand switch in terms of the service provider. This will badly reflect on the prospective customer's attitude. To avoid this, the causes for dissatisfaction are to be identified and have to be attended well. If a complaint is well attended, then the unsatisfied customer becomes more loyal to the organization and thereby, the relationship would continue to exist.

The organization must see that there is a sense of matching between the customer requirements and that of the organization requirements in terms of the following parameters at every point of time.

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These parameters are:

- Goals
- Demand
- Limitations
- Options
- Values and behaviour.

'Goals' are what the organization would like to reach and what the customer would like to receive. The 'demands' are concerned with the pressure under which the organization and the customers are. 'Limitations' are constraints on the part of the organization and also on the part of the customers. The parameter 'option' relates to the alternatives available to the organization as well as to the customers concerned. 'Values' are the common standards accepted both by the organizations and the customers. 'Behaviour' is the line of actions and reactions by organizations and customers.

Concentration on Performance

Performance of each one in the chain of service offering is to be continuously monitored and corrective actions are to be initiated. This must be on a continuous basis and there must be a separate team of members well trained to evaluate the performance and initiate corrective actions.

Training Supply Chain Employees

In case of organizations that involve a supply chain for the delivery of the services, it must provide a state-of-the-art training to all those who are connected in the supply chain. Every link in the supply chain is very important. Unsatisfactory performance by anyone will jeopardize the entire process of providing total satisfaction to the customers concerned. Training in the areas of customer care, customer approach, body language of service providers, customer communication, customer need assessment, customers complaint management, etc. are to be provided.

Relationship-Based Pricing Schemes

Introduction of relationship-based differential pricing scheme would encourage customers towards relationship building. Under this method, the prices charged from customers are dependent on their extent of loyalty. A customer, who makes frequent visits to a particular hotel, will be charged less as compared to the other category of buyers. Several hotels, airlines, hospitals, etc. practice this method of pricing. This method induces customers to go to one particular service provider for availing one kind of service and thereby the relationship would emerge and continue.

Identifying with Social Events and Concern for Societal Problems

An organization must come forward to identify itself with all social events with which the organizations and the customers are concerned. It may mean celebrating religious functions, national days, organizing or sponsoring sports meets, and cultural meets.

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Effective Customer Communication System

Organizations must have simple, open, efficient customer friendly communication. The customer must feel free to contact the organization at any point of time and get any sort of their problem solved. Special training may be given to personnel working in the communication channel specially in being receptive, encouraging, positive, optimistic and friendly to customers. Each communication received should be recorded, classified and analysed as to their nature, and significance. The response from the organization to the complaints received should also be recorded. Communication system that is based on customer requirements would obviously contribute towards relationship development.

Customer Complaint Monitoring Cell

In service process, there is always scope for service failure. In such a case, attending to the grievances is the first step towards service recovery. An organization should focus attention on establishing an efficient customer complaint monitoring cell. The role of the cell is to receive, register, and classify complaints, forward them to the respective departments to initiate action, and follow-up until the complaint is attended to the satisfaction of the customer concerned. Periodical meetings of members of customer complaint cell and officials of various functional areas are to be arranged, to discuss the volume and nature of complaints received. This would help in more effective coordination. Such attempts would enable better relationship with customers.

Developing Customer Satisfaction Index

An organization must attempt to build a customer satisfaction index and measure the extent of satisfaction of the customers in terms of various attributes of the service provided and the related aspects. This attempt will help measuring satisfaction quantitatively and further steps towards improving this may also be effectively initiated.

Focus on Preventive Actions

Factors contributing negatively towards customer relationship are to be identified and measures are to be taken towards preventing possible undesirable happenings. More attention should be devoted for order processing, delivery scheduling and the related aspects.

Concentration on Customer Satisfaction Research

A service organization must initiate research on customer satisfaction in terms of customers' level of satisfaction, factors contributing towards satisfaction, extent of customer retention, influence of competing firms on customer satisfaction, customer attitude towards the organization, their perception towards it and so on. This research should be carried out on a continuous basis and strategies towards improving customer satisfaction must be based on the research findings. This would enable the organization to find more appropriate approaches towards building customer relationship.

Focus Group

Focus group meetings should be organized frequently. The focus group must consist of representatives of various customer categories. Close and continuous interaction

with focus group would provide deep insight into the customers' perception, their problems, their expectations and so on. Organization must consider these, while framing policies relevant to service process.

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Drawing the Attention of Competitors' Customers

One of the most important challenges of the service marketers is to draw the attention of the competitor's customers and make them buy their services. Concentration on its own customer helps an organization to survive, while concentration on competitor's customers helps the organization to succeed further in terms of its market share. The following techniques are normally practiced to draw the attention of competitor's customers:

- Offering additional incentives
- Extending augmented benefits
- Concentration on tangible and **intangible** rewards
- Special concessions on initial purchase
- Introduction of competitor's customers in the organizations' customer panel
- Special attention on order processing and execution
- Increase the expectations much more than what the customer receives from the competitor

Developing Total Care Programmes

Every organization that aims for building and maintaining a relationship may have to develop an excellent total customer care programme to suit the specific requirements of its target customers. The following guidelines help in developing suitable total customer care programs:

1. The firm should respond as quickly as possible for all enquires received, however un-important those enquiries may be from the organization's viewpoint.
2. Concentration should be not only on the product satisfaction, but satisfaction on all related aspects of the purchase and consumption process.
3. The firm should come forward readily and quickly to compensate any loss faced by the customer.
4. It is important that the firms avoid irritation, annoyance, victimization at any point of time when dealing with customers.
5. The services offered by the firms should be easily accessible.
6. Added-value products and services may be offered along with the core services in order to make it distinctively better than competitors.
7. It is advisable to invest in the brand image of the firm.
8. It is important to communicate with the customers in order to boost their confidence in the firm.
9. Customers prefer to be given choices. Hence, firms may offer their services at various levels and in different price packages.
10. Firms should arrange service-related educational programmes free of cost or with a minimum fee at a regular interval.

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11. Service marketing is customer oriented. Hence, customer's point of view should always be acknowledged.
12. It is important to deal with each customer uniquely and give them impression of the same.
13. Customers endow more faith in a firm that stands by its moral, ethical, social and cultural values.
14. In a service firm, customers' inputs in the form of their responses/reactions play important role. It is important for the firm to incorporate this input in the most productive way possible.
15. The firms should encourage customers to participate in organizational customer-related activities.
16. It is important for the firm to make each customer feel that he or she is part of the organization.
17. Firms must be flexible and go by customer's specific requirements. The organization's rules, policies should never stand in the way of providing total customer satisfaction.
18. A service firm should develop opportunities to interact with lost customers.
19. The servicescape play an important role in service industry. It is important that high standards of cleanliness and hygiene are maintained.
20. During service process, customers might make some demands which can not be easily met. It is important for the service providers to be extremely careful while rejecting a customer's request. The customer should be made to understand under what circumstances the request is being rejected.
21. It is important to assess customer satisfaction, dissatisfaction and reasons for the same at regular intervals.
22. A service firm must always keep innovating new ways to provide maximum levels of customer satisfaction.
23. Service organization must maintain visibility in the target market, by organizing or participating in events, programmes, etc.
24. In the absence of tangible evidence, a service firm relies on the customer's satisfaction to assess the success of a service provided. Hence, it is important to make sure that the customers feel that they have got value for their money.

The total customer care programme evolved by an organization after incorporating the said guidelines helps attract customers and works towards building long-term relationship with them. The words of Mahatma Gandhi on the significance of customers are the most appropriate in this context:

> 'A customer is the most important person in any business. A customer is not dependent on us, we depend on him. A customer is not an interruption of our work; they are the purpose of it. A customer does a favour when he calls but we are not doing him a favor by serving him. In fact, he is doing us a favour by extending an opportunity to serve him.'

Building Switching Barriers

In order to retain customers, organizations must come forward to build firm-switching barriers. In view of those barriers, switching may be made difficult and not worthwhile. Those barriers may include incentive schemes, relationship based pricing, additional services, attractive prize schemes, sentiments based schemes and so on. If the customers perceive difficulty in switching to another service provider, they would prefer to extend their relationship. For this reason some organizations may even go the extent of employing unethical ways to build switching barriers.

Unethical Approaches to Build Customer Relationships

Nowadays, in an increasingly unethical ways are also normally adopted towards building customer relationship. However, students must note that these unethical practices are brought to their attention only for creating awareness and not for application.

Some examples of unethical ways of building relationship are given below:

- **(i) Imitating:** Imitating the attributes and concepts of well-accepted brands in an unlawful ways.
- **(ii) Promises:** Making promises to customers with no intentions to fulfill them.
- **(iii) Commitment:** Developing misleading commitments and obligations.
- **(iv) Discrimination:** Discrimination among the buyers in terms of quality and services.
- **(v) Forcing:** Making tie-up sales with other highly preferred services/products.
- **(vi) Communal Affiliation:** Extending communal affiliation and drawing the attention of customers of selected community.
- **(vii) Negative Publicity:** Indulging in negative publicity of competing firms.

Many such unethical methods are being practiced towards building relationship. However, a customer can be retained permanently only by means of quality products and services.

4.6.2 Managing Relationships

The approaches in marketing functions are constantly changing in tune with the changing challenges that are faced at the market fronts. Today, marketers consider retaining of customers as a much more challenging job than acquiring customers in the context of growing competitive forces. Thus, the traditional transactional approach of marketing became insufficient to achieve the marketing goals. This scenario necessitated the emergence of a new approach, namely, relationship marketing.

The relationship marketing approach differs from the traditional transactional approach in several ways. The focus of transactional marketing approach is on individual transaction and does not concern continuous relationship with customers. The framework of transactional marketing does not contain a strategic long-term perspective. It focuses on tentative adjustment process as regards performing marketing functions. Customers are viewed as outsiders to the business. Under transactional approach customer’s expectations, satisfaction, multiple influences on their decision-making process etc. are not given due significance. Very little attention is paid to customer services and customer commitments. The thrust of transactional marketing is on gaining more and more new customers rather than retaining existing customers.

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In contrast to the transactional marketing approach, the relationship marketing focuses on continuous multiple transactions rather than isolated individual transactions. Relationship marketing aims at investing in the development of 'marketing network'. The logic behind such a network is that if effective long-term relationship is developed between a firm and its customers, the revenues too follow. The relationship marketing approach considers customers as insiders to the business and aims to build a long-term and never-ending relationship with them. The focus of relationship marketing approach focuses on developing hard core loyal customers with the idea of retaining them forever. A high degree of customer contact, commitment and services are maintained.

Transactional vs Relationship Marketing

Transactional Marketing	Relationship Marketing
The focus is on immediate sale/ transaction.	The focus is on retaining customers and building a long-term relationship with them.
The quality of the service is believed to rely only on interpersonal interaction with the customer. Hence, the responsibility for the success of the service lies with the individual employee interacting with the customer.	Each member of the organization takes on responsibility of the quality of the service.
The focus is on the features of the service.	The focus is on the immediate as well as long-term benefits of the service.
The time period taken for consideration is short.	Both the immediate as well as long-term benefits are considered.

The relationship marketing approach has gradually taken the shape of **customer relationship management (CRM).** Relationship marketing has a narrow focus not only on the customers but also, on the marketing functions of the organization concerned. On the other hand, customer relationship management focuses more widely on customers and on the entire functions connected with value creation and delivery chain of the organization concerned. Organizations have preferred the usage of the term customer relationship management (CRM) rather than relationship marketing.

Some select views of few marketing theorists, practitioners and researchers on relationship marketing are summarized below to gain more knowledge of the concepts of relationship marketing.

Relationship marketing attracts, maintains and enhances customer relationship as viewed by Leonard I. Berry (1983). He proposes the following sequence of activities for performing relationship marketing, viz, developing core services to build customer relationship, customization of relationship, augmenting core services with extra benefits, enhancing customer loyalty and fine tuning internal marketing to promote external marketing success.

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Christopher et al. (1990) considers relationship marketing as 'a tool to turn current and new customers into regularly purchasing clients and then progressively move them through being strong supporters of the company and its products to finally being active and vocal advocates for the company'.

Relationship marketing is in essence 'selling by using psychological rather than economic inducements to attract and retain customers'. It seeks to personalize and appeals to the hearts, minds and purses of the mass consumers as viewed by James J. Lynch (1996).

According to Ian H. Gordon (1998), relationship marketing is an ongoing process of identifying and creating new values with individual customers and then sharing the benefits from this over a lifetime of association. It involves the understanding, focusing and management of ongoing collaboration between suppliers and selected customers for mutual value creation and sharing through interdependence and organizational alignment.

The customer relationship management in general is operationally defined by authors as 'a management process of acquiring customers by understanding their requirements, retaining customers by fulfilling their requirements more than their expectations and attracting new customers through customer specific strategic marketing approaches. The process invites total commitment on the part of the entire organization in evolving and implementing relationship strategies that would be rewarding to all concerned.'

The relationship marketing approach has great significance from the organizations' point of view due to the following:

- Reduction in customer recruitment cost
- Generation of more and more loyal customers
- Expansion of customer base
- Reduction in advertisement and other sales promotion expenses
- Benefiting customer selectivity approach
- Increase in the number of profitable customers
- Easy introduction of new products
- Easy business expansion possibilities
- Increase in customer partnering

The customers are also benefited by relationship marketing in terms of improved service quality, personalized care, reduction of customer stress, increased value for money, customer empowerment, etc.

Objectives of CRM

- To evolve a set of committed customers and maintain it
- To seek prospective customers with maximum potential
- To encourage the loyal customers to buy a variety of services
- To update information about the change in a customer's life cycle
- To be aware of the fluctuation in the purchase pattern or a shift in brand preference
- To recognize the change in customers' needs and expectations

- To encourage customer attraction as well as retention
- To foster long-term customer-firm relationship

Importance of CRM

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- CRM is not only a management approach; it is also a useful database that puts together information about the customers, the efficiency of market strategies and market trends.
- CRM also helps in understanding various patterns involving consumer behaviour by combining technology and human resource.
- CRM facilitates a constant interaction with the customers, which helps an organization modify or improve its service products.

Benefits of Customer Relationship Marketing

- It helps in fostering a customer-friendly brand image.
- It serves as an important tool in maintaining customer loyalty towards the firm and hence facilitates customer retention.
- It encourages a positive image of the service organization in the market.
- It serves as an important tool in tackling threats from the competitors by preventing customer acquisition.
- It facilitates word-of-mouth promotion of the service firm through satisfied customers, which in turn helps in bringing in prospective customers into the firm's folds.
- The satisfied customers form a loyal customer base which proves to the most productive for the firm in the long run.
- It helps the employee-customer relationship to evolve, which plays a very crucial role in service industry.
- It proves to be as beneficial to the customers; it puts them at ease with the service firm, enabling them to share their inputs freely. At the same time, they avail numerous benefits that such a relationship entails.

4.7 SUMMARY

Some of the important concepts discussed in this unit are:

- The feature, styling, design and range of services helps the organization in gaining a competitive advantage in meeting the needs of the customer in a more efficient and effective manner than its competitors. Since services are intangible, minor variations and changes can be made in order to keep up with the changing trends in the market.
- It is very necessary to understand the process by which customers assess the total service offering since customers initially assess the core service for its ability to satisfy their substantive needs for a service such as need for sense of control and status which are later translated into number of service attributes.

Check Your Progress

15. List some unethical ways of building customer relationships
16. Give one difference between transactional marketing and relationship marketing.
17. Give two benefits of customer relationship management.

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- A fundamental requirement that triggers a search for need-satisfying solutions in providing services is apparent from simple buyer behaviour models as the idea is to identify possible solutions and then evaluate them on the basis of certain criteria.
- A competitive strategy is often narrowly focused at direct competitors that include firms which market products that offer a similar way of achieving the same benefits, or there may also be a serious threat from generic competitors which offer customers a different way of achieving similar benefits.
- The task of managing markets and ensuring a compatibility with supply and demand is more complex for services than for goods, since the production and consumption of goods are separable and the manufacturers of goods have the option of holding stocks of goods that can be moved to even out imbalances in supply and demand. However, the inseparability and perishability of services result in there being insufficiency in matching demand and supply in the long term, within the purview of a widely defined geographical market.
- Service quality is an important aspect to be considered when defining a service offer, since it is the basis of customers differentiating between competitive services. Therefore, the initial task of an organization providing services should be the establishment of specifications and requirements of the goals for providing a high-quality service to customers.
- An important factor resulting in the poor performance of service firms is incomplete knowledge of customer expectations. Marketing research elicits some information about customer expectations and service perceptions through a variety of quantitative and qualitative techniques such as regular customer surveys, customer panels, transaction analysis, perception surveys, mystery shoppers, analysis of complaints, employee research, similar industry studies and intermediary research.
- Total quality management (TQM) is a multi-disciplinary approach to improve the effectiveness and flexibility of an organization and organizes and involves all employees in all activities and all functions at each level. However, quality circles (QC) often work within a TQM framework and consist of small groups of employees meeting together under supervisors or group leaders for discussing their work in terms of standards of service production and delivery.
- The process of brand choice is a purposeful action plan of selecting a specific brand from the total available brands. Customer expectations are shaped by the influences of various internal and external factors that are interrelated and not easily predictable or identifiable.
- The marketing tools employed to attract new customers is known as customer acquisition which is a vital stage in building customer relationships. For this purpose, an organization should have a detailed database containing the classification of its target market and related details which might help in making the acquisition process affective.
- Customer retention is the process of keeping customers in the customer inventory for an unending period by meeting the needs and exceeding the expectations of those customers and is an approach that is used to convert a casual customer

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into a committed loyal customer. In lieu of the competitive environment, the focus of the organizations is also on customer retention than simply on customer acquisition.

- There is a visible distinction in the approach of the organization towards customer acquisition and retention, like, during acquisition, the focus is on acquiring relationships, the demographic and psychographic profile of the customers, whereas during retention, the focus is on nurturing relationships, past and present transactional profiles in addition to demographic, psychographic profiles, etc.
- The relationship marketing approach has gradually taken the shape of customer relationship management (CRM). Relationship marketing not only has a narrow focus on the customers but also on the marketing functions of the organization concerned. Organizations prefer the usage of the term customer relationship management (CRM) rather than relationship marketing.
- Relationship marketing uses psychological rather than economic inducements to attract and retain customers. It seeks to personalize and appeals to the hearts and minds of the mass consumers. It is quite important in case of services marketing as it ensures cultivating a personal relationship with the customers.

4.8 ANSWERS TO 'CHECK YOUR PROGRESS'

1. The four main service product strategies are – market penetration, market expansion, new or modified services and diversification.
2. The stages of a service lifecycle are:
    - Phase 1- Introduction
    - Phase 2- Growth
    - Phase 3- Maturity
    - Phase 4-Saturation
    - Phase 5- Decline
3. The stages of a new service development process are – idea generation, idea screening, concept development and testing, business analysis, development and commercialisation.
4. The elements incorporated in the Model of Buyer Behaviour are – input, behavioural determinants, perceptual reaction, processing determinants, inhibitors and output.
5. The eight different types of customer demands for services are – negative demand, no demand, latent demand, faltering demand, irregular demand, full demand, overfull demand and unwholesome demand.
6. The five stages of relationship development are – awareness, exploration, expansion, commitment and dissolution.
7. The variety of quantitative and qualitative techniques used for achieving comprehensive insight into service quality problems are – regular customer surveys, customer panels, transaction analysis, perception surveys, mystery shoppers, analysis of complaints, employee research, similar industry studies and intermediary research.

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8. The five aspects of service quality covered by SERVQUAL are – empathy, responsiveness, assurance, reliability and tangibility.
9. The main objective of total quality management (TQM) is to improve the effectiveness and flexibility of an organization as a whole.
10. The internal and external factors of brand choice are as follows:
    I. Internal factors: perception, motives, personality, self-image, attitude and learning.
    II. External factors: culture, group behaviour, family, role relationship, economic status, lifestyle and communication.
11. The factors that influence customer acquisition are – type of buying, type of service, type of customers, economic environment and contextual operations.
12. The stages of customer retention are – acquisition, retention, attrition, defection and reacquisition.
13. Customer retention offers benefits to the organization as – an asset, an ambassador, an experience shaper, a winning edge, a knowledge provider, a spokesperson, a driving force, a caretaker, a resource provider and a partner.
14. The ways in which gaps occur in customer retention are – perceptual, procedural, promotional and positional.
15. Some unethical ways of building customer relationships include – imitating, promises, commitment, discrimination, forcing, communal affiliation and negative publicity.
16. One difference between transactional marketing and relationship marketing is that in transactional marketing the focus is on immediate sale or transaction while in relationship marketing the focus is on retaining customers and building a long-term customer relationship.
17. The two benefits of customer relationship management are:
    - It helps in fostering a customer-friendly brand image.
    - It serves as an important tool in maintaining customer loyalty towards the firm and hence facilitates customer retention.

4.9 QUESTIONS AND EXERCISES

Short-Answer Questions

1. What do you understand by the service lifestyle concept?
2. What are some of the strategies used by service organizations to develop relationships with customers?
3. How does a service organization manage its service capacity?
4. What are the five gaps between service level expectations and the perception of actual service delivery?
5. What are the requirements for organizing and implementing service quality?
6. Briefly explain the process of customer acquisition.

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7. What are the different sequences in the customer retention process?
8. What are the ways in which gaps occur during customer retention?
9. How can an organization reduce customer dissatisfaction?
10. What are some of the techniques for drawing the attention of competitor's customers?

Long-Answer Questions

1. Explain the principal elements of secondary level service.
2. How is a new service developed? Explain the process in detail.
3. Explain in detail the models of buyer behaviour along with their elements.
4. What are the various customer demand situations? Discuss.
5. Examine the various quantitative and qualitative techniques used for achieving comprehensive insight into service quality problems in detail.
6. Discuss the ways in which specific quality standards are developed.
7. Explain the process of customer brand choice in detail.
8. What are the requisites for effective customer acquisition? Discuss in detail.
9. What are the various factors influencing acquisition of customers?
10. Describe the concept of customer retention and its stages.
11. Discuss the characteristics of a retention-centered organization.
12. Discuss in detail how total care programs are developed for customer.
13. What are the objectives, importance and benefits of customer relationship management?

UNIT 6 ENCOUNTER SERVICES MARKETING

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Structure

6.0 INTRODUCTION

We often use the services of various sectors like banking, insurance, telecommunication, transport and consultancies in our daily lives. What we do not fully comprehend is the vast amount of strategies and techniques which are developed by these sectors to provide smooth and hassle-free services to us. Marketing of services for these sectors is a very important task since there is a lot of competition among organizations, making it difficult for customers to choose the ones which would meet their service requirement and fulfill their needs to the highest capacity.

The surge in economies worldwide has capacitated people to demand high-quality services, which require companies to increase their personnel skills and enhance their service quality to deliver the services to customers according to their demand. New-age banking has brought with it customer-preferred services like security, speed and ease in banking services, along with the consultancy of services to be compounded. Insurance agencies are using banking channels to provide insurance services to a wider segment of customers called bancassurance, a fairly new concept in banking and insurance sectors. Many consultancy firms have come up to provide consultancy services to customers and organizations alike. Privatization in telecommunication services has improved the quality of service in lieu of international standards. Transportation service marketing is also significant as there is a growing demand for transportation alternatives due to increased population and strong competition in this sector.

6.1 UNIT OBJECTIVES

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After going through this unit, you should be able to:

- Understand the importance of bank marketing
- Examine the need for insurance marketing
- Assess the marketing mix of insurance services marketing
- Discuss the significance of marketing telecommunication services
- Understand marketing of consultancy services
- Examine the method of promotion and advertising used for consultancy services marketing
- Understand the concept of transportation services marketing

6.2 BANK MARKETING

The approach towards marketing by the banking sector was taken in 1950 in the west and after 1980 in Turkey. Banks are now inclined towards creating new markets due to the advent to new-age banking targeting marketing techniques to gain more customers. The techniques for marketing and planning were structured in banks in order to offer their new services effectively. The scope of marketing in banks comes under the services marketing mix. The purpose of services marketing for banks is not only selling banking services to customers, but also to create a good and prospective image of the bank in their minds. However, financial marketing relates to the differences between the customer's judgement standards and the financial institutions. The scope for marketing is significant in the banking sector due to the following reasons:

The bank's wish for higher profits: It is necessary for banks to increase their profits for creating new markets and developing their market shares in order to survive the strong competition and demographic chance levels.

Change in the demographic sector: The demographic sector greatly affects banking services since diverse population, in terms of composition and number, affect the attributes and mindset of customers.

Intense competition in financial service sector

Since the international baking trends have grown ad developed over the years, there is quite an intense competition in the banking sector. Increased interest rates due to liberalization have also given rise to competition in this sector. The marketing strategies adopted by the banking sectors since 1950 are shown below in five stages:

1. Marketing strategies focusing on specialization in specific areas.
2. Marketing strategies based on close relationships with customers.
3. Marketing strategies pertaining to marketing research, marketing planning and marketing control.
4. Promotion oriented strategies for marketing.
5. Reformist marketing strategies.

6.2.1 Marketing Mix for Banking Sector

The banking sector marketing activities begin with targeting the market where they want to offer their services. The bank must keep in mind the features of the market and

market conditions before developing marketing strategies. As the marketing manager takes care of the variables under control of the bank, provisions should also be made for handling external variables. The factors affecting the banking sector market such as legal arrangements, competition and technological developments constitute the marketing mix for this sector.

1. Service

Nowadays, the banking sector draws revenues from servicing beyond selling money to the masses. Banking services are also intangible in nature like all other services in the service sector. The services involved in banking include money lending, depositing money and cheques along with money transferring procedures. The intangible services of banking are shaped into contracts and the structures of these services determine and ensure the success of a banking institution in the long run. The new-age banking has brought with it customer-preferred services like security, speed and ease in banking services, along with the consultancy of services to be compounded.

2. Price

Price is an important tool of the services marketing mix and is known by different names on the basis of the transactional exchanges taking place at the bank. Estimating banking charges on the services offered is one of the important functions of the bank. This enables them to maintain relationships with existing customers and attract new ones as well. Banking prices are named interest, expense and commission. Price creates earnings for banks while other services cause only expenditures. Price affects sales volume and profit directly, whereas the other marketing mix elements affect the volume of sales. Extreme caution should be taken while pricing and developing price policies since customers tend to be drawn towards competitors if there are any variations in prices. Cost plus, challenging leader ad transaction volume base are the three methods of pricing used by banks.

3. Distribution

The banking services are complicated and quite complex due to its intangibility, where bank offerings delve into the mental intangibility along with physical intangibility. Persuading customers to benefit from its services is one of the significant features of the bank marketing. The participation, knowledge and capacity of customers are the crucial qualities facilitating the value of services and the benefits procured from them. Production and consumption are simultaneous in services while services once consumed cannot be re-consumed by customers. Various branches of banks use the traditional method of distribution in banking services making a personal interaction mandatory between the bank and its customers. This leaves direct distribution as the sole alternative of service distribution.

4. Promotion

Promotion is one of the most important service provided in the services marketing mix consisting of advertising, personal selling, sale of promotional tools and public relations.

(i) Personal selling

Banks prefer personal selling due to the nature of services involved in this sector. There are two methods of personal selling in banks. The first method entails the banker and customer interacting face to face at the bank's branch office. In this method, the

entire personnel, which includes the banks' employees, managers and chief manager, partakes in the selling process. The second method involves the customer representatives visiting the customer at home. Customer relationship representatives specialize in offering banking services and shaping the relationship between the customer and the bank.

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(ii) Advertising

There are many goals to be achieved according to a bank's vision. These goals of developing advertising campaigns and use of media help obtain the following objectives:

1. Create a good image of the bank and its services
2. Emphasizing efficient service
3. Persuade customers to examine all types of services offered by the bank
4. Change the attitudes of customers
5. Support personal selling
6. Introduce the services offered by banks to the customers.
7. Increase the use of bank's services

The advertising channels and media preferred by banks include television commercials, magazines, newspapers, outdoor ads, radio and direct posting. The initial step before any marketing venture is to identify and determine the target market and the medium which can best reach the target audience and would be economical as well. The following criteria should be kept in mind while media selection for banking services:

1. Cost
2. Choice of media for the target market
3. Market competition
4. Nature and characteristics of services
5. Message content

Advertisements need to be image-creating, educational and should provide the following information:

1. Market situation, future developments and government situations
2. Bank activities, new services, programs and results
3. Opportunities offered for industry branches whose development meets national benefits

(iii) Public relations

The function of public relations in banking is to:

1. Give important information about bank activities
2. Establish the most effective communication system
3. Creating a lasting relationship between bank and customer

It is interesting to note that banks of Turkey have their own magazines, publications and sponsoring activities.

(iv) Promotional tools for selling

Another promotional mix tool in banks is improved selling. Most popular improvement tools are rewarding personnel, special gifts, layout at selling point, premiums, seminaries, contests, etc.

6.3 INSURANCE MARKETING

Insurance is a form of risk management used for hedging against a risk of an uncertain loss or a contingent. Insurance is the equitable transfer of risk for a loss from one entity to another in exchange for a certain amount of payment.

An **insurance carrier** is a company responsible for selling insurance to the policyholders who are the people buying that insurance policy from the insurers. An amount known as insurance premium is charged for a certain amount of insurance coverage. Risk management has developed as a study and practice for insurance carriers. The personnel involved in risk management are for identifying, appraising and controlling risk. The insurance process involves the insured person assuming a small loss in the form of payment and a guarantee to the insurance carrier in return for their promise to compensate the insured person if any financial or personal loss occurs for them. The insured person receives an insurance policy, which is a contract from the insurer, carrying details of the terms and condition on the circumstances under which they would receive financial compensation.

Insurance is known as the agreement between people for facing common risks and making small contributions at certain intervals towards the common fund. The main purpose of insurance is to offer people safety and security against any uncertain loss. Insurance marketing is the marketing of insurance services to create customers for buying insurance and drawing profits by satisfying them. The main focus of insurance marketing is to formulate an effective marketing mix for the insurance business enabling the organization selling insurance to gain maximum profits and thrive successfully.

6.3.1 Indian Insurance Sector

The Indian insurance sector has not been considered an investment medium for a long time; rather, it is taken as a means for saving taxes by some people. Indians only trust their banks for depositing their savings in the form of fixed deposits or any investment schemes available with them. Many people in India still invest in gold as a lifetime security due to the escalating gold prices in these times. In 1970, the business of Life Insurance was nationalized in India. The only insurance company to have a monopoly over the Indian Life Insurance sector is the Life Insurance Corporation of India (LIC). However, the Indian insurance market has become highly competitive due to the advent of private insurance companies in alliance with insurance experts overseas. In order to monitor insurance, the Insurance Regulatory and Development Authority Act (IRDA Act) was passed in 1999 by the Parliament of India. The President of India gave his consent for the IRDA Act in the year 2000.

We are surrounded by risk and uncertainty each day of our life. There is no control over the financial risks faced by people. Risks may also be in the form of death, theft, fire, accident, natural calamity, etc. Insurance acts as a financial aid for people by providing them with coverage against risk with the savings deposited by them as security against certain risks. Insurance is significant in providing protection to people in case of uncertain losses. Insurance helps minimize any worry of losses due to death and destruction of property or assets and provides certain capital to people, since the money deposited with the insurance organization is invested in various productive ventures. The marketing of insurance is a part of services marketing. Insurance marketing is important for providing quality services to customers in order to guarantee their satisfaction with the services of the organization providing insurance.

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Insurance: Insurance is a form of risk management used for hedging against a risk of an uncertain loss or a contingent

Insurance carrier: A company responsible for selling insurance to the policyholders who are the people buying that insurance policy from the insurers

Check Your Progress

1. Which are the four tools of promotion used for bank marketing?
2. What are the functions of public relation in banking?
3. Why does a bank wish for higher profits?

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While marketing of insurance services, the service providers should think in the perspective of developing innovative promotional measures and let the prospective customers know of the quality of their positive contributions.

6.3.2 Insurance Marketing

The main aim of insurance marketing is to attract customers and obtain maximum profits by providing satisfaction to customers through their services. Insurance marketing uses the tools of services marketing to create a marketing mix for selling insurance efficiently and effectively for the business to thrive and prosper.

Marketing —Mix for Insurance Companies

Insurance marketing is undertaken by insurance providing organizations to meet the needs of the target segment of customers. This business involves selling insurance services to people, because of which it is important to formulate a marketing mix for this purpose. The marketing mix for insurance purpose is formed on the basis of the 7Ps of services marketing, namely the service, its price, place, promotion, people, process and physical evidence. These 7Ps can be used for insurance marketing as mentioned below:

1. Service

Service denotes the insurance services provided by the organization or insurance carriers. Production or generation of services is intangible in nature. It provides an intangible service product. Services are sold by insurance sellers and bought by people who want to be insured against impending risks. Services are sold in an insurance organization making services their business and income generating product. The two leading insurance selling companies in India are the Life Insurance Corporation of India (LIC) and the General Insurance Corporation (GIC). These companies provide consulting and underwriting services along with insurance policies to customers.

2. Pricing

Pricing is an important constituent of the insurance sector marketing mix in terms of attracting key prospects and influencing customers in the target market. The rate of insurance premium is the key factor in determining the pricing for insurance services. Interest, mortality and expense are the main factors to be kept in mind while determining rates of insurance premium. When changes occur in any of these factors, the insurance premium rates are revised.

- **Interest:** One of the significant factors determining the investment of people in insurance is the rate of interest. Most people are not interested towards investing in insurance if the interest rate provided are more than the perceived returns from the premium provided on insurance. People would not like to spend any service which does not provide them with maximum benefits or returns.
- **Mortality:** Mortality refers to the proportion of deaths to the total population. While deciding on pricing, the insurance providers also have to decide on the rate of mortality in the country. For example, in South Africa, the determination of the mortality rate is very important since there is an abundance of diseases there.
- **Expenses:** Expenses for insurance companies comprise of the commission to agents, cost of processing, registration and reinsurance companies. These expenses are later incorporated into the sum of insurance premium and the

installment costs. This is an important and indispensible component of the pricing strategy.

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3. Place

Place, as a part of the services marketing mix for insurance sector, is related to two significant components:

(i) Locating a branch

(ii) Managing the insurance personnel.

Insurance personnel management and agent management is necessary for maintaining the order and norms of service providing. This is also done to end the gap between the services promised and services provided to the customers. This will be beneficial for the end user or the customer seeking insurance services. In most of the service providing organizations, these gaps can make a bad impression on existing as well as prospective customers. Converting potential insurance policyholders to actual insurance policyholders is quite a complex process since it depends upon the personnel's professional skills. The insurance agents who act as links between policyholders and insurance carriers are quite unprofessional in nature.

4. Promotion

Promotional measures contribute greatly to the marketing of insurance sector services if they are developed efficiently. In India, the rural economy has dominance over the urban economy, due to which the illiteracy rate is very high. Personal as well as impersonal promotional measures are important for this sector's marketing. The insurance agents and the rural career agents have a high contribution in the promotion of insurance services. The skills of the insurance agents, rural career agents, branch managers and front line staff should be kept in mind while selecting promotional tools for insurance business promotion. Intensive training should be given to these personnel for creating impulse buying for customers. Providing incentives to policyholders, advertising and publicity, organization of seminars and conferences are types of impersonal communication. Rural wall painting, exhibitions, publicity drive through publicity van units and participation in fairs or festivals are a few measures which can attract rural buyers and create impulse buying making them key prospects. These rural prospects can be converted to insurance policyholders quite easily.

5. People

It is very important to understand the mindset of a customer for insurance marketing and design their services appropriately. The insurance business needs a very high level of customer interaction and this resource should be used quite efficiently to ensure customer satisfaction. Building strong relationships, training and development with regard to customers need to be considered by insurance marketers. Employee training along with the use of information technology for both the personnel and insurance agents are important tools to attract customers. The development of human resource skills can be undertaken by providing training, education and psychological tests. The company can also benefit from efficient insurance personal by providing incentives and other forms of motivation to ensure productivity and quality.

6. Process

The insurance selling process in the insurance sector should be customer friendly. The payment speed and accuracy is very significant as incompetence in this process could

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be a huge deterrent. The method of processing insurance in companies should be quite simple, easy to understand and convenient for customers. The schemes pertaining to installments of insurance premiums should be designed in a way to effectively serve the customer demands. The process of insurance service can become more efficient with the help of information technology and data warehousing. Information technology helps the channels of distribution maintain cost efficiency and in servicing a large number of customers. This brings down the overhead cost. Data warehousing helps in calculating and assessing the profitability and customer potential from various customer segments.

7. Physical distribution

Physical distribution is one of the key attributes accounting to the success of insurance companies. The insurance sector has gained a strong foothold in India today and has a good market reach and presence. Building a network for distribution is a very tedious, expensive and time consuming process. Even with the help of technology the process is not simplified, since the distribution network cannot be replaced by it. However, it offers better customer service and enhances the image of the business. Bancassurance is slowly gaining popularity in the insurance and banking sector. Insurance industry in India is now using banks and financial companies as a distribution channel for insurance. Financial services firms provide bank accounts, motor insurance, life insurance, home insurance and pension plans. In countries like France, banks provide sales for half of the insurance sector. In India, banks are forming alliances with insurance companies like SBI Life Insurance Company, Barclays- MetLife India, Axis Bank- MetLife India, ICICI Lombard General Insurance Company, etc. Physical evidence comprises reports, employee's dress code, signage, punch lines, other tangibles, etc.

6.4 TELECOMMUNICATION SERVICES MARKETING

During the later part of the 20th century, most countries, especially the developing countries, started realizing the necessity for efficient telecommunication network due to the awareness of Information and Communication Technology (ICT). This step was vital for the development of the economy worldwide and for the globalization of developing countries.

With the advent of the 21st century, the developing countries took full advantage of the technology revolution with the liberalization of the rigid regulations and policies which had existed earlier. In order to maximize the efficiency and affordability of the telecommunication system, many of the developing countries had started liberalization of their internal policies. Majority of the lower income developing countries had made their economies global by liberalizing their domestic licensing and important policies in 1995. This enabled the flow of Foreign Direct Investment (FDI) and foreign capital, benefiting the telecommunication sector. Countries experience a surging growth in the telecom sector and in the telephone network, giving rise to a telecom revolution in the developing countries. These countries account for 49 percent of the world's total telephone network today. There was an unstable development in the ICT in the developing countries and the development in other segments save cellular was very slow. Towards the end of 2006, there had been a tremendous growth in the telecommunication industry and a fast progress in the technology and policy development, which resulted in increased competition and a well-connected global network.

Check Your Progress

4. What is the meaning of insurance?
5. Name the main factors to be kept in mind while determining rates of insurance premium.
6. What are the two significant components in relation to place for services marketing mix in the insurance sector?

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In 1851, India had its first encounter with the Telecom sector, when the British government laid down the first operation landlines in Calcutta. After India's independence, the foreign telecommunication companies were nationalized by the Indian government to form a monopoly called Post, Telephone and Telegraph. The state controls the Indian Telecom sector and the Department of Telecommunications (DoT) which reports to the Ministry of Commerce (MoC). MoC is the main body for issuing policies and regulations along with being a basic service provider for the country. The Telecom Regulatory Authority of India (TRAI) was formed by an Act of Parliament, which is a regulatory body to monitor and regulate the Indian Telecom sector.

6.4.1 Telecommunication Services

The Indian telecommunication tariff is the lowest in the world nowadays. This has benefitted the Indian public and is responsible for the surging growth in the Telecom sector. The list of GSM and CDMA operators in India is given below:

(i) Telephone services
(ii) Pay phones
(iii) Electronic Mail
(iv) Cellular mobile telephone
(v) Internet
(vi) Telex
(vii) Video conferencing
(viii) Home country direct service
(ix) Gateway E-Mail and Store & Forward FAX Service (GEMS-400)
(x) NSD/ISD services
(xi) Telegraph services (manual & automatic)
(xii) Voice
(xiii) Computerized trunk services
(xiv) Gateway Packet Switched Data Services (GPSS)
(xv) Radio paging
(xvi) National & international leased lines circuits
(xvii) X-25 based Packer Switched Data Network (NET)
(xviii) Public mobile radio trunked service
(xix) INMARSAT mobile service
(xx) ISDN
(xxi) V-SAT
(xxii) Intelligent Network (IN) services
(xxiii) Satellite based remote area business message network
(xxiv) Audio-text
(xxv) Concert Packet Service (CPS)
(xxvi) INMARSAT data service
(xxvii) Video-text
(xxviii) Gateway Electronic Data Interchange Service (GEDIS)

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Service Quality

The participation of private companies enables superior service quality, which is one of the main reasons for the success of privatization. In many developing countries like India, there was a need for rapid expansion of telecom services often putting the quality of service in question. The most important contribution of private companies in the telecom sector is the improved quality of services in accordance with the international standards. Private companies have financial and technical resources in abundance, making it quite easy for them to obtain maximum profits. The main aim of private companies in the Telecom sector is to provide world-class quality services to their customers, giving them the complete value for their money.

6.4.2 Telecommunication Marketing

Marketing enables the organization to understand the demand of the customers and deliver services to them according to their needs and wants. It is one of the most important functions in an organization. The purpose of marketing is to use the information from marketing research to create efficient services for customers. The functions of marketing include market research, market planning, new product development, market segmentation, consumer behaviour, branding techniques, customer psychology, distribution channels, customer relationship management, pricing strategies, regional marketing and business to business marketing. Marketing discipline uses the techniques for market research to evaluate and assess purchase behaviour, customer decision making and customer judgement, The marketing of telecommunication services ensures high revenue from the marketing network and strengthening customer loyalty. The telecom companies service customers, corporate customers and other service providers and their techniques for marketing are different for each segment. For consumers, the aim is to sell a major bulk of services, whereas for business segments, the purpose is to build lasting relationships for marketing additional services of the company.

Consumer

For consumer segments, the company markets its broadband services to access the triple play, namely telephone, internet and video. This helps in increasing profits and customer loyalty, which in turn helps retain the company's customer base against the market competition. The competition in this segment includes low cost of other service providers and indirect competition in the form of cable network companies.

Business

Marketing for business segment customers involves the use of consultative selling techniques. With constantly changing technology, it is necessary to keep informing customers about the benefits and relevance of the new technologies. Service providers should discuss with customers about their requirements and advice them on the appropriate services to fulfill those needs. Marketing programs can be developed and interaction with customers takes place in the form of seminars, discussion papers and other promotional events.

Carriers

Wholesale marketing offers service providers like telecommunication companies access to one's networks for carrying their network traffic. This access can also be provided to content providers and online video publishers. These services are also known as carrier services as they help in increasing the company's profit and enables other

service providers to expand their network without the necessity of building any additional infrastructure. In the case of carrier services marketing, one should explain the advantages of a network within the capacity, reach and performance for meeting consumer requirements. Wholesale marketing is an important telecommunication marketing function.

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Product Development

With the changing technology, companies should focus on developing new products and services to increase profits and obtain maximum return on the company's investment in the network. Recent changes in networks which provide multiple services that are based on the Internet Protocol (IP) technology enhances services on a wider scale on the same network, rather than the traditional voice networks. IP networks are capable of providing internet and voice services as well as building video and data services using the same infrastructure. Working with network companies providing information and giving advice on market opportunities, technical advice and support is beneficial for the enhancement and development of services.

Mobile

The significance of mobile telecommunication has increased considerably over the last few years and is impending on the voice revenue, which was the main supporter of the traditional telecom providers. Therefore, it becomes necessary to have one's own mobile services or partner with other mobile service operators to offer joint services to customers.

6.5 CONSULTANCY SERVICES MARKETING

In recent years, the consulting industry has changed significantly. One of the major reasons that brought about a change is the mergers and acquisitions that took place in the few years. Another important reason is that many of the IT companies thrust themselves with their own subsidiaries into the market. In most of the cases, clients expect new payment terms. As a result, the consultancy industry is gaining importance.

The industry uses a variety of methods and techniques to market advisory services. One needs to understand the fact that apart from gaining new clients, it is important to intensify the existing client relationships as well. There are differences between its various marketing techniques; however, they are not easily identifiable except for some favoured marketing techniques. Most of the firms prefer more subtly indirect techniques to the direct techniques. The direct marketing techniques are considered less important. Smaller consultancies and bigger ones perceive the opportunities and importance of certain industry sectors and consulting services differently.

Check Your Progress

7. What is the triple play for broadband services used for consumer segments in telecommunication service marketing?
8. What is the main reason for the success of privatization in the telecom sector?

6.5.1 Consultancy Services Marketing Mix

Traditionally, attracting new customers is regarded as the key goal of a consulting firm. However, it is more important to emphasize on retaining its existing customers. A well-managed firm will always try to retain and grow its existing customers. The fact is that it will cost five to six times more to attract a new client than to maintain an existing client. The services marketing mix is incorporated in the consultancy services to develop marketing strategies as examined below:

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(i) Service

A consulting firm should understand the importance of its human resources. The productive capacity of the firm is, in fact, in its human resources. The firm's productivity as well as upholding the firm's creative and productive employees' interest is important for the firm. Therefore, the consultancy needs to provide a product mix for its clients (external customers) and employees (internal customers), as well. Besides projects like 'Bread & Butter', the organization should conduct challenging 'Pacesetter' projects that will help retaining its best employees. A specialist can focus on a certain service for a particular industry; however, a marketing generalist has to focus on all his services for all industries. It is not easy to understand the consulting services and their worth as they are intangible. However, companies can use a number of innovative methods and measures to understand the tangible aspects.

(ii) Price

It is a common knowledge that the price is dependent on the case-size. A small case requires only a few consultants and less time. Whereas, a global company undertaking a number of countries involves more consultants. The involved consultants are paid differently as well. It is obvious that a director is paid more than a junior consultant and therefore creates more costs for the client. However, the client may insist to be advised by executive consultants. Consultancies are usually well aware about the price structure within the market. They are well informed about their competitors' pricing strategy as well. Therefore, it is unlikely to have much difference between the fees charged by two different firms offering the same service. If a consultancy is in a unique market-position, it may enjoy the privilege of charging a fee higher than rest of the other firms.

Nowadays it is also possible that consultancies take-over clients' businesses. For example, Deutsche Bank outsourced its data processing service centre in Heidelberg (Germany). Now, it is managed by the Computer Science Corporation (CSC).

(iii) Promotion

The services provided by a consultancy firm can sometimes be difficult to understand and their worth is unpredictable. Therefore, advertising and promoting their services is considered as a daunting task. In the case of consultancy services, 'word of mouth' has proved to be more powerful than advertising. Service firms should try to encourage more and more customers to tell their friends and business partners about the service provided by the firm. Networking and referrals are highly useful in the consulting industry.

(iv) Distribution

Consultancy services are distributed directly as the consultant and the client need to meet each other. In fact, before a case is stipulated, several meetings take place between the consultant and the client. Most of the consultancies opt for a multi-service strategy. The firm can grow and expand its business by capitalizing on its reputation. The company adds to the operational complexity of the business with its growing range of new services. For distribution of its services a wide network is quite important. With good networking, the firm's reputation and its services can be spread easily and quickly.

6.5.2 Direct Ways of Promotion for Consulting Services

Direct approaches or direct ways are primarily used by smaller consultancies. Most of the consultants prefer being approached by prospective clients. However, it is unlikely that smaller consultants or newcomers get approached by a large number of clients. Therefore, they have to find clients who seek their services.

(a) Systematic Cold Contacts / Canvassing

There are a number of ways of canvassing a client directly. When a consultancy firm gets information that within one business sector consulting services are urgently required, it may start conducting systematic cold contacts. In this case, the consultant tries to contact the potential client directly and then offers the client its services. Some of the reasons for approaching consultancy firms suddenly are expected (hostile) takeovers, unexpected economic downturns, new products, sales problems, new legislation rules, etc.

Consultants should understand that the potential client could be in a troublesome situation. In such cases, possible sources of information are 'insiders', such as alumni who are now in press or customers of the client. Once the consultancy has gathered enough information, it can send a letter to the potential client. The letter can include some cases giving details about references concerning similar problems that were solved earlier by the firm. Some of the types of the 'systematic cold contacts' are cold telephone calls, cold visits and direct mail.

(b) Cold Visits & Telephone Calls

Cold visits are not considered a great option to approach a potential client as he/she might not be comfortable sharing his/her confidential matters with a stranger. However, the consultant can use cold telephone calls at the first step. There is no guarantee that the consultant will be able to convince the potential client to seek the firm's services. But there is still a chance that the client might want to meet the consultant.

(c) Direct Mail

This can be done by sending a direct mail to the clients. One disadvantage of direct mail is that usually it gets only a few seconds of attention before it gets deleted. Therefore, it is important that message is clear and targeted to the specific needs of the customers. A well-created email often tends to express strong, sometimes forthright opinions, which strike a chord with high-level target contacts. It is possible to give the direct mail a meaningful opinion only when you have a sound knowledge about that particular industry. Therefore, the industry has to be researched in-depth before you send a direct mail to the industry in order to give the direct mail a meaningful opinion.

(d) Unsystematic Cold Contacts or Cold Calls

Another type of cold contact is 'unsystematic'. In this case, the mails or calls do not focus on a specific potential client, but on a number of potential clients. For example, a mail is sent to a whole region or business sector. However, the offer must match actual existing problems. Three categories of unsystematic cold contacts are as follows:

(e) Unspecific Cold Calls

Unspecific cold calls are usually like a self-presentation. It needs to focus on the strengths of the consultancy. Establishing an image also helps as it will help make the firm well known. However, rate of response is low.

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(f) Cold Calls linked to a competitive advantage

This form of cold contacts either stress a competitive advantage a consultant has, or give a precise description of a former case and point out the consultant's competence.

(g) Cold Calls with a business solution

In this case, the consultant identifies a specific problem within the business sector and offers a tailor-made solution.

(h) Follow-up

When the consultant gets no response from the potential client, a follow-up can be undertaken. The consultant can send further useful information to the potential client, who is apparently uninterested. This may succeed in convincing the potential client.

6.5.3 Indirect Ways of Promotion for Consulting Services

Many of the popular consultancies opt for the indirect marketing approaches. Some of the major consultancies which use such type of marketing approach are Boston Consulting Group, McKinsey & Company, Accenture, Bain & Company and Arthur D. Little. The indirect marketing efforts are usually more subtle but they are characterized by a certain proximity to customers.

1. Word of Mouth

Word of mouth marketing is considered as one of the most efficient and popular way for a professional firm to get in contact with new clients. Decisions to choose a particular consultancy's services are usually influenced by recommendations gave by someone. Sometimes, influence of others' opinion proves to be more powerful than someone's own perception.

2. Networking

Networking plays a great role in making a consultant successful. Always keep in mind that access to knowledge is a key aspect of being a consultant. The network of contacts is an invaluable source. For example, the first consulting firm in the United States, Arthur D. Little, used 'networking' to make it one of the most popular consulting firms in the world. It remained the number one consulting firm till 1979.

3. Referrals

While a consultant is working on one case, he/she can use the opportunity to talk to the client and ask him about his/her business partners or others who could be interested in the constancy firm's services. He/she can be encouraged to talk to the fellow managers about the case. That way, the services of the firm will be promoted. If a consultant could make his/her client satisfied, giving the client a satisfactory result, then the consultant has the right to use the case and the client's name in promoting the services of the firm.

4. Customer Relationship Marketing

Relationship marketing is an important form of marketing which focuses on customer retention and satisfaction. It is important to get new clients. However, it is also essential to retain former clients.

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Relationship marketing: An important form of marketing which focuses on customer retention and satisfaction of customers

6.5.4 Events, Sponsorships, Seminars and Workshops

Sometimes constancy companies organize or sponsors events, seminars and workshops in order to promote their services.

Sponsorships

When a consultancy firm sponsors an event, it is obvious that the name of the firm stands out. Sponsoring big events will help in promoting the services of the firm. It will also help in attracting potential clients. For example, Booz Allen Hamilton sponsors an annual golf tournament known as the Booz Allen Classic at Avenel.

Seminars

Consultancy firms can organize seminars as well. They can either organize such events themselves or in collaboration with partners such as scientific institution, chambers of commerce etc. In most of the cases, speakers are consultants of the hosting firm or sometimes externals who are closely linked to the firm.

Workshops

Workshops are considered as a useful option especially for discussions about current business themes. In workshops, the participants are actively involved and give the consultants relevant information and details about their own demands.

Dinner seminars

Dinner seminars or fireplace conversations are a common and effective means promote a firm's services. It helps in intensifying the existing client's relations. In dinner seminars, client partners are invited for a dinner or a discussion and discuss about important business themes. For example, James McKinsey's discussions with Marvin Bower in such a seminar helped in upgrading the size and quality of McKinsey's clients.

Memberships/Directories

It is quite useful when a consultant becomes a member in a consultancies' association. If possible, try to get into potential clients' associations. It will be even better if the consultant is listed in directories. In addition to the consultant's name and address, a directory also gives information about the consultant's areas of expertise and a description provided by the consultant concerned. Examples for consultant directories are IMC (Institute of Management Consultants) in the UK and FEACO (Federation Europeene des Associations de Conseils en Organisation).

Presentations

One of the effective means of promoting a firm is taking parts in presentations. This will give a consultant an opportunity to speak at a target client's convention. It might not directly help in convincing the potential clients to seek the firm's services but it will help in making more contacts.

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Self-Analysis

Self-Analysis is a way of analysing and evaluating a company's strengths and weaknesses. Some companies can develop checklists. After this, the completed forms are sent back to the consultancy for further analysis. The consultancies gather relevant information about the potential clients. Then they may focus their marketing efforts.

Media

Lambert says that 'there is no promotion as effective or satisfactory as free ink'. It should be one of the key objectives of the consultant being presented as an expert in his/her service field in the media. When a consultant is lauded in media, there is possibility that he/she gets an opportunity to appear in press conferences or such events with a key client, which can prove to be very useful for the consultant and the firm as well. A perfect example could be Booz Allen Hamilton. Whenever the consultancy firm or anything about its services is mentioned in the media, the firm records the release. This helps Booz Allen Hamilton measure the effectiveness to spread messages and other important findings. Another useful method to attract potential client's attention is the company's website. Here, clients can extract required information about the firm. Booklets can also be ordered by the potential clients.

Brochures/Booklets

Contrary to the cold contacts, brochures provide general information about the firm rather than focusing on a specific customer problem. When a company orders a brochure or booklet, some of the important information about the company is already given to the consultancy firm, which can prove to be useful for the firm.

6.5.5 Corporate Identity and Reputation

A consultancy firm itself can determine the corporate identity; however, the reputation of the firm is highly influenced by the perception of the clients.

Corporate Identity

Many of the firms use different ways to emphasize the firm's corporate identity. Some of the common methods are engagement in social clubs, offices in exclusive locations and hiring staff at the leading business schools. Another important means of creating corporate identity is to focus on uniformity. For example: Marvin Bower, McKinsey & Company CEO, determined in his 'Guiding Principles' every important step of the advisory process like the presentation style, the dress code, etc.

Reputation

In the consulting business, reputation is considered as an important success factor. According to Wilson, 'reputation is the most valuable asset a consultant has, so valuable that it has to be nurtured and protected as much as possible'. He stated so because it is difficult to earn good reputation, but can be lost easily by one bad project. The impact of reputation can be seen in the following three examples. When the company Accenture split from its parental firm Andersen Worldwide, it tried it best to transfer some of Andersen's reputation to the new brand. It helped Accenture in establishing

itself successfully. For Marvin Bower, reputation was considered equivalent to revenue growth. He felt that when the status and reputation of a firm grow, the revenues will naturally grow. Another interesting example is that of Arthur D. Little (ADL). ADL managed to gain reputation by developing and innovating scientific processes such as pioneering in pollution control, converting salt water into fresh water, environmental protection, etc.

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Advertising

Advertising is usually considered a viable option only for bigger consultancy firms. But some consultants still try to use advertising to promote their services. Some of the drawbacks of advertising are that it may cost a company a huge amount of money and moreover, its long-term effect is debatable. Many experts criticize, that advertising campaigns are a sign of no imagination. However, Andersen Consulting changed the general concept with its 1990 advertising campaigns. The campaign's message was made very simple 6 'metamorphosis in a world of change'.

6.6 TRANSPORT SERVICES MARKETING

Marketing of transport services is also an important element of marketing due to the increased competition in the market. Competition increased with the advancement in technology, with new products emerging in the market every few days. This has made marketing of services an important facet for increasing sales for a particular service of a brand. The automobile giants spend more than $21 billion on worldwide marketing, which enhances their sales and increases their revenue. Indian car owners have increased at an amazing rate in the last decade.

The purpose of branding and marketing for public transport is to guide the public transport companies to combat against competition and provide a more lucrative alternative than private transport. Increased and better-planned marketing of public transportation enhances more service buyers which ultimately benefits customers and the general public.

There are eight important steps for developing a successful marketing campaign for transport services marketing:

1. Build a strong brand

In order to build a strong brand, it is important for the transport system to define the core value and motive for its services. Majority of the transport sector works towards building a brand name by portraying a rapid, convenient, modern, reliable, safe and comfortable outlook towards providing services. Transport companies have to undertake an exhaustive market research to decide upon potential customer and market segments they should provide services to and build a successful brand-name,

2. Sell your values

Each personnel of a transport company should be a brand ambassador for the company and should portray a good impression in the market about their services to customers. For example, Montreal's transit agency, Société de Transport de Montréal, more than half of its 8,600 employees are in direct contact with their customers. Customer

Check Your Progress

9. List the direct ways of promotion for consultancy services.
10. Enumerate the indirect ways of promotion for consultancy services.

interaction at a personal level with the employees is important since it reinforces and maintains the brand and core values of the agency. The employees should be able to relate to the company's values and understand its need for providing services in order to incorporate personal contact and a strengthened relationship with the customers.

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3. Get started early

People who might prefer using the public transport system even if they possess their personal vehicles, could be forced to use their own vehicle rather than the public transport because of the unfamiliar system of the boarding process, the route take by the vehicle or the fare system, etc. Here, marketing would be able to serve its basic purpose of providing the required information to interested customer segments before their journey. This would enable them to travel comfortably and retain them as future users of the same kind of service.

4. Systematize the information

One of the important roles of marketing is to systematize the information which has to be provided to customers. The use of transport medium starts not with the journey but with the information provided before it, so that a customer is able to study all the aspects of navigation, route, surrounding area, etc. Information kiosks, way-finding signage, informative brochures, etc. help in providing the required information to the customers regarding the transport service, making their journey or trip easier and more comfortable. This even helps in retaining customers for future trips.

5. Know what customers want

The perception of customers for using transport services is based on the following five factors:

- Safety and cleanliness
- Savings and cost
- Reliability
- Service hours
- Frequent service

The service providers must ensure that these factors are kept in mind while developing service marketing strategies for transport services marketing.

6. Control the narrative

Even though it is commonly believed that 'there is no such thing as bad publicity', it is better for the service providers to attract media coverage that can be controlled and steered by them. Addressing problems or negative perceptions is more important than waiting for a reaction. This might be a better solution to salvage and solve the problem.

7. Be responsive to customers

Since service industry is a customer driven industry, the channels of communication must be bi-directional in transportation. Feedback is an important aspect of services marketing, since customers are able to feel more involved and help personalize services. Therefore, there have to be some provisions for customers to provide feedback, either positive or negative. Educating customers helps them gather information and give feedback which can be incorporated by service providers for enhanced services to users.

8. Offer new ways to access information

The technology used for assessing information has changed in the last few years with the internet becoming a useful source of information for customers to assess the transport service sector. It is the function of marketing to make comprehensive websites or web pages about their services giving complete and detailed information to customers and help them make informed decisions. This process is inexpensive and can target a large segment of customers at the same time.

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6.7 SUMMARY

Some of the important concepts discussed in this unit are:

- Nowadays, banks are inclined towards creating new markets due to the new-age banking for expanding their customers. The techniques for marketing and planning are structured to offer their new services effectively and the purpose of services marketing for banks is not only selling banking services to customers, but also to create a good and prospective image of the bank in their minds.
- It is necessary for banks to increase their profits for creating new markets and developing their market shares in order to survive the strong competition and demographic chance levels.
- The advertising channels and media preferred by banks include television commercials, magazines, newspapers, outdoor ads, radio and direct posting. The initial step before any marketing venture is to identify and determine the target market and the medium which can best reach the target audience and would be economical as well.
- The main purpose of insurance is to offer people safety and security against any uncertain loss. Insurance marketing is the marketing of insurance services to create customers for buying insurance and drawing profits by satisfying them and its main focus is to formulate an effective marketing mix for the insurance business enabling the organization selling insurance to gain maximum profits and thrive successfully.
- The insurance selling process should be customer friendly and providing incentives to policyholders, advertising and publicity, organization of seminars and conferences are types of impersonal communication.
- The rate of insurance premium is the key factor in determining the pricing for insurance services and the main factors to be kept in mind while determining rates of insurance premium are interest, mortality and expense. Locating a branch and managing the insurance personnel are two significant components of insurance marketing.
- The participation of private companies in the telecommunication sector enables superior service quality, which is one of the main reasons for the success of privatization. The most important contribution of private companies in the telecom sector is improved service quality in accordance with the international standards as they have both financial and technical resources in abundance, making it quite easy for them to obtain maximum profits.
- The functions of marketing include market research, market planning, new product development, market segmentation, consumer behaviour, branding techniques,

Check Your Progress

11. What are the five factors which determine the perception of customers for using transport services?
12. What are the eight important steps for developing a successful marketing campaign for transport services marketing?

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customer psychology, distribution channels, customer relationship management, pricing strategies, regional marketing and business to business marketing.

- Telecommunication services marketing ensure high revenue from the marketing network and strong customer loyalty. The telecom companies service customers, corporate customers and other service providers and their techniques for marketing are different for each segment. The main aim of service providers is to sell a major bulk of services, whereas for business segments, the purpose is to build lasting relationships for marketing additional services of the company.
- Traditionally, attracting new customers is regarded as the key goal of a consulting firm. However, it is more important to emphasize on retaining its existing customers as a well-managed firm will always try to retain and grow its existing customers.
- The services provided by a consultancy firm can sometimes be difficult to understand due to which, advertising and promoting their services is considered as a daunting task. For consultancy services, 'word of mouth' has proved to be more powerful and service firms should encourage more customers to tell their friends and business partners about the service provided by the firm. Networking and referrals are highly useful in the consulting industry.
- Advertising is usually considered a viable option only for bigger consultancy firms. But some consultants still try to use advertising to promote their services. Some of the drawbacks of advertising are that it may cost a company a huge amount of money and moreover, its long-term effect is debatable. Many experts criticize, that advertising campaigns are a sign of no imagination.
- Marketing of transport services is also an important element of marketing due to the increased competition in the market. Competition increased with the advancement in technology, with new products emerging in the market every few days. This has made marketing of services an important facet for increasing sales for a particular service of a brand.
- The purpose of branding and marketing for public transport is to guide the public transport companies to combat against competition and provide a more lucrative alternative than private transport. Increased and better-planned marketing of public transportation enhances more service buyers which ultimately benefits customers and the general public.

6.8 ANSWERS TO 'CHECK YOUR PROGRESS'

1. The four tools of promotion used for bank marketing are advertising, personal selling, sale of promotional tools and public relations.
2. The functions of public relation in banking are to:
   - Give important information about bank activities
   - Establish the most effective communication system
   - Creating a lasting relationship between bank and customer
3. A bank wishes for higher profits to survive the strong competition and demographic chance levels.
4. Insurance is a form of risk management used for hedging against a risk of an uncertain loss or a contingent.

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5. The main factors to be kept in mind while determining rates of insurance premium are interest, mortality and expense.
6. The two significant components in relation to place for services marketing mix in the insurance sector are :
   - Locating a branch
   - Managing the insurance personnel.
7. The triple play for broadband services used for consumer segments in telecommunication service marketing is telephone, internet and video.
8. The main reason for the success of privatization in the telecom sector is due to superior service quality.
9. The direct ways of promotion for consultancy services are - systematic cold contacts/canvassing, cold visits & telephone calls, direct mail, unsystematic cold contacts or cold calls, unspecific cold calls, cold calls linked to a competitive advantage, cold Calls with a business solution and follow-up.
10. The indirect ways of promotion for consultancy services are - word of mouth, networking, referrals and customer relationship management.
11. The five factors which determine the perception of customers for using transport services are:
    - Safety and cleanliness
    - Savings and cost
    - Reliability
    - Service hours
    - Frequent service
12. The eight important steps for developing a successful marketing campaign for transport services marketing are - build a strong brand, sell your values, get started early, systematize the information, know what customers want, control the narrative, be responsive to customers and offer new ways to access information

6.9 QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the five stages of marketing strategies adopted by the banking sectors?
2. Give a brief account of the Indian insurance sector.
3. What are the direct ways of promotion for consulting services?
4. How are events, sponsorships, seminars and workshops effective ways of marketing consulting services?
5. Briefly explain corporate identity and reputation in relation with consultancy services marketing.
6. Why is the insurance sector important in today's world?

Long-Answer Questions

1. Explain the process of bank marketing.
2. How is the marking mix developed for insurance companies? Discuss.
3. Explain the concept behind telecommunication marketing in detail.
4. Discuss the indirect ways of promotion for consulting services in detail.
5. Why is it important to market transport services? Explain
6. What is the importance of a good service quality in telecommunication services marketing?
7. Examine the consultancy service marketing mix in detail.

UNIT 5 EXPERIENTIAL SERVICES MARKETING

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Structure

5.0 INTRODUCTION

Experiential marketing has become quite an integral part of the services marketing mix since the demand for high-quality hotel, tourism, hospital, education and entertainment services has increased over the years. With the surge in economic activities, the demand for luxuries has also risen considerably. Experiential marketing helps customers to interact and connect with brands on a personal level to make smart and informed purchase decisions. Experiential marketing means connecting customers with the services to increase brand awareness and sale propensity. It allows people to experience the services themselves rather than informing and telling them about it.

Experiential marketing helps connect with customers on an emotional level, inspiring them with the thoughts of deriving comfort and pleasure from the services. People feel a need for holiday and recreation as a change in their fast-paced life. Here,

hotel services marketing, tourism service marketing and entertainment or recreational services marketing comes into focus since they would be the sectors providing their customers with a choice of holiday destinations, hotel accommodation while visiting the destination and the recreational activities they would undertake during their holiday.

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Hospital service marketing has also come up as an important aspect of experiential marketing since people have started expecting high-quality services during their treatment in a hospital. They want attentive and friendly hospital staff along with convenient and comfortable accommodations during their recovery period. With the economic progress in India, there is a considerable rise in the number of educational institutions offering professional courses. However, with the increasing number of institutes, students, who are the target customers in this case, have many options to choose from increasing competition in this service sector. Therefore, the service providers of educational institutes have to use marketing tools and develop strategies to achieve a competitive edge.

5.1 UNIT OBJECTIVES

After going through this unit, you should be able to:

- Understand the concept of tourism service marketing
- Analyse the demand for domestic and international tourism
- Comprehend how to use forecasting techniques in tourism services
- Examine how marketing of services occurs in the hotel industry
- Determine the need for hospital services marketing
- Examine the importance of recruitment in hospitals
- Discover the changing trends of education services marketing
- Understand the need for entertainment and recreational service marketing

5.2 TOURISM SERVICE MARKETING

The marketing concept can be expressed as the matching of a product with needs and desires of market. People should be offered what they want to buy. One must also develop the right product at an acceptable price. Potential buyers will see the product in the right way and will be stimulated to buy it. Finally, its purchase has to be made as easy as possible.

The key to successful marketing ties into understanding the market and creating products to satisfy its needs. To know what people want requires the analysis of answers to the following questions:

Who are the people who travel? What are their characteristics, e.g, social class and profile, age, sex, marital status? What are the motivations of these different groups? What do they want? What are they looking for? Why are they travelling?

It is important for a government's tourism departments, in collaboration with the private sector, to adopt a complete marketing role apart from promotion to product development. It should also act as the catalyst in the formulation of the destination's

marketing strategy. And it should also monitor the effectiveness of sales programmes, lending it support as and when necessary.

5.2.1 Purpose of Travel

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People travel for two reasons:

- **By obligation:** Having to go somewhere on business, or feeling an obligation for religious reasons, or for reasons of family or friendship, or for medical reasons.
- **For pleasure:** Choosing to go somewhere for pleasure. For example, for pleasurable activities like, adventure, escape, discovery, excitement, sport or romance, or any other pleasure seeking motivations. These may differ from person to person. When taken altogether, they comprise leisure tourism.

The purposes of travel, according to the WTO, are leisure, recreation and holiday, visiting friends and relatives, business and professional, health treatment, religion/ pilgrimages, and other. Travel for leisure is central to our understanding of tourism. It is linked to the growth in leisure which has accompanied social and economic progress. It is a major contributor to contemporary culture, a part of any modern concept of individual freedom of expression, and the subject of intensive and competitive international market forces.

Travel for leisure as a broad category can be broken down into mainstream tourism, special interest tourism and alternative tourism.

Although the overall market may become more diverse, its mainstream changes little. This solid major market segment, by far the largest, is made up of people looking for rest and recreation. They want comfortable holiday hotels and other types of smart tourist accommodation. Many may prefer to be in a resort complex offering a full range of shopping, recreation, restaurants, entertainment and other facilities and services. This is the traditional holiday market which changes only according to contemporary fashions, tastes and values. It can be segmented mainly on the basis of nationality, social class, spending power and age. The following are examples of special interest markets:

- Nature tourism in all of its specialized forms
- Trekking
- Fishing
- Cultural interest in various specialized forms
- Photography
- Deep-sea diving
- White water rafting
- River cruising
- Adventure tourism—based on camping expeditions
- Game watching
- Youth tourism—outdoors and adventure

Figure C10 depicts nature tourism that is fast gaining ground.

These markets are formed through the common special interest. It is this interest which is more important than other characteristics, e.g., age, cultural background, etc. A

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passion for archery, photography, ornithology, deep-sea diving, military history or archaeology, may unite a highly heterogeneous group of people with otherwise dissimilar backgrounds and characteristics. Another market may be composed of naturalists. These may be people with a passion for such subjects as ornithology, etymology or botany. In a similar way, hobbies can be divided into a wide range of segments, for example, people interested in pastimes like painting, photography or ceramics. Another segment of the market may be looking for soft adventure. This kind of holiday will capture excitement and thrills, while providing a certain level of security and comfort, for example, a safari staying at comfortable game lodges with good food and comfortable accommodation. It will have elements of hardship and apparent risk to go with the thrills. Another segment may be composed of the sports enthusiasts eager, for example, for golf, tennis or fishing. Figure C11 portrays adventure sport tourism that is being promoted all over the world.

It can be questioned whether alternative tourism should exist as a separate category at all, or whether it should just be included as another special interest segment. Tourism marketers tend to talk about the new traveller. The new traveller is described as better educated, culturally aware, environmentally and culturally sensitive, and more curious and analytical.

Such people are looking for an alternative to the mainstream trends of the large mass tourism markets. They do not want modern hotels constructed and equipped according to international norms. Alternative tourism is usually based on small locally owned accommodation units, very much a part of the local community and reflecting local values and ways of life. Alternative tourism seeks to feature and protect local culture, and to involve the community in such ways that local people benefit fully. It is a tourism which aims to be better assimilated and more supportive of local needs and aspirations.

Alternative tourism promotes local cuisine, the use of local materials and handicrafts, and the development of a whole range of other participating tourism services, e.g., local folkloric performances, trekking, handicrafts demonstrations, and cultural and recreational activities. It also fosters the creation and development of tourism enterprises operated and owned by local people.

As already noted, these kinds of travel tend to be motivated by a sense of obligation. This obligatory travel is obviously driven by demand.

5.2.2 Concept of Demand in Tourism

Obviously, unless a destination possesses the natural, scenic and cultural attractions, it is difficult to create a demand. In this sense, tourism is always supply-led. A place has to be attractive to even consider developing leisure tourism.

For a destination to be demanded, given that it has the right natural and other attractions, requires a marketing approach. This means a complete analysis of all marketing opportunities, and the selection of certain markets. It means the development of an appropriate product to satisfy these markets, with the pursuit of particular types of tourist.

However, the capacity must then exist (in both resources and professional knowledge and skills) to provide facilities of a certain standard to satisfy tourists.

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Sometimes, marketing strategies are chosen which are not workable, given the level of local skills and know-how. It can be seen that tourism is led by both supply and demand; by product and its markets.

One can talk of four levels of demand: basic, displacement, created and future. The basic demand is an existing demand which is not being completely satisfied, for example, there is a demand to stay in a destination but there are still too few hotels. Displacement demand occurs when people are persuaded to stop using one product in favour of another product which better fulfills their needs. For example, new and better hotels are opened in one destination and displace demand from other destinations. Created demand is when the creation of a new product creates a demand which did not exist before. For example, new hotels in a certain destination create a completely new demand. Future demand will be brought about by future changes and developments, for example, by increases in standards of living, by economic growth, increases in population, and by a general growth in tourism. Future demand eventually becomes a part of the basic demand. These levels to demand are well illustrated by the countries of South East Asia. The basic level of demand has tended to exceed the supply of the right kinds of facilities. Rapid regional growth has brought future demand a steady rate. As countries have added facilities, so they have displaced demand from other destinations.

Total demand consists of different groups of people, with different preferences, tastes and spending power. There may be lots of different market segments each seeking a particular product with distinctive characteristics. Demand has to be analysed and the market for a destination segmented, accordingly. The product should, then, be developed to meet the various needs of these segments. This means that the product will be segmented in a matching way. Each product segment may have distinctive characteristics and pricing to match fully the needs of its corresponding market segment.

Sometimes, when prices are lowered, it results in people buying more. When the sales of an item are sensitive to any changes in price, demand is said to be price elastic. When sales are insensitive and demand remains the same, it is price inelastic.

Even small changes in price may result in a substantial effect on demand (elasticity), while quite large changes may have little effect (inelasticity). Leisure travel of the popular mainstream type tends to be price elastic. In contrast, people who travel on business must travel regardless of cost; and this tends to be price inelastic.

The price elasticity in relation to marginal costs and the need to fill up empty space at the last minute, is an important factor. When prices are greatly reduced to encourage last minute travel, the market tends to respond quickly. However, price is also linked to the image of a product. The value attached to a product, its prestige and desirability, may depend largely on how much one has to pay for it.

Marginal cost is the cost of producing one more unit or as is the case in tourism, of accommodating or serving one more visitor. If the cost is low, it may be tempting to cut prices to fill up space on airplanes and in hotels. Such a strategy takes advantage of the price elasticity of demand. However, it may also cheapen the product, undermine the image, and antagonize people who have paid full price.

5.2.3 Market Segmentation

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Countries market a tourism product according to its diversity. The product may subdivide into many different places and experiences. Separately, these may attract both large and small domestic and international markets. When confronted with this complexity of products and markets, there is a need to try and structure them in a sensible way. Large countries have a very diverse tourism product appealing to a huge spectrum of market segments; one can almost say a continuum of segments, for example, countries such as France or Italy.

However, to make sense of large countries, they may have to be broken down into regions, areas, counties, provinces, cities, towns and resorts. Each one has first to be studied separately. They are then all brought together and viewed as a whole.

The product is differentiated according to market segments and markets are segmented according to the entire range of products offered. This is how supply and demand are matched. Each market segment has to be well understood and analysed according to its characteristics. Each market segment represents people with different characteristics and needs. For example:

- Nationality or place of cultural origin
- Stage of life
- Social grade
- Psychographics
- Motivation and interests
- Mode of travel/distance travelled

Markets can be segmented in any way, using any criteria that make sense in identifying the characteristics and patterns of consumer behaviour and needs. There are three basic reasons for segmenting markets:

- To develop the product to satisfy specific needs
- To identify where and how to sell the product
- To judge if and how to mix different segments together.

The following describes typical sets of criteria in the segmentation of markets:

It is obviously important for a resort to know whether visitors are, for example, Japanese, French or Italian. Each nationality has its own language and many distinctive preferences and patterns of behaviour.

A particular resort or hotel has to judge the extent to which it can mix nationalities. Few studies have been done that can assist operators in this decision. Operators know, by experience, that if they exceed 50 per cent of resort or hotel capacity for one nationality alone, say Japanese, it may be difficult for other nationalities to blend in. Many consider that 50 per cent is already too high. It is sometimes held that once 50 per cent is exceeded it is better to aim at 100 per cent for that nationality. Doing this, however, makes the resort dependent on one market only. This has obvious dangers.

Similarly, there may be dangers in mixing subcultures from the same country. There has to be a good understanding of the ways in which groups of people differ and

how will they mix together. People from different regions, with variations in educational and cultural levels and incomes, may not go well together. It may depend on the precise proportions and the nature of the holiday. Gender is also an important variable, men and women may have some different travel preferences and needs.

According to each nationality and market, people may also have a different order of priority in the way they choose to spend their disposable income. An important criterion in the segmentation of markets is found in people's life cycle. The following is a typical breakdown based on the period of life reached and the likely travel preferences.

There are various similar approaches to the classification of the stages of life as, for example, by Philip Kotler. Age exercises many other influences on a person's motivations. Needs and tastes will change at each stage of life. Young single people want to do different things compared to older married couples with children, and elderly people will have developed altogether different preferences.

The breakdown, from the Institute of Practitioners in Advertising, is now used as the Social Grade Profile of the UK's National Readership Survey sample and serves as an example of social grade grouping.

The social grading was originally based on the Head of Household concept, but this has now been changed to Chief Income Earners. This has had the effect of shifting the social class profile more upmarket. People's incomes help to indicate the price they may be able and willing to pay for a particular product. Some groups, however, may be willing to pay different proportions of their discretionary income for travel. Pricing policy may be developed accordingly. Generally, however, one does not segment markets according to price level; one prices according to each market segment. The marketing mix as a whole is formulated to target particular segments.

In most countries, there are numerous sources of demographic data characterizing segments of society, according to criteria, such as age, sex, occupation, educational level, income and place of residence. These data allow for crude segmentation only, representing an inflexible way of categorizing society. Marketing specialists have tried to identify more complete ways of explaining consumer behaviour, and have used psychographics. This is a technique which relates personality to social values and lifestyles.

Different psychographic profiles may describe inward and outward looking people, adventurers and play-it-safers, leaders and followers and so on. They may also be based on studies with some validity, and may increase the understanding of the particular appeal of various tourist experiences.

Sometimes, however, the concepts tend to be too glib and fail to recognize all the complexities of human behaviour. People categorized, according to one particular profile, may suddenly demonstrate a range of behavioural inconsistencies.

The main examples of the psychographic approach are:

- Stanford Research's Values and Lifestyles Programme (VALS): These are four value groups divided into nine lifestyle categories—Survivors, Sustainers, Belongers, Emulators, Achievers, 1-am-Me, Experiential, Societally Conscious and Integrated.

- Yankelovich Clancy Shulman's Monitor: These are seven lifestyle categories: Self-explorer, Social Resister, Experimentalist, Conspicuous consumer, Belonger, Survivor and Aimless.

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Both these approaches have been widely used internationally. In the United Kingdom, Young and Rubicam's 4Cs—Cross-cultural Consumer Classification reflects the VALS approach.

People will choose to travel by air, sea, rail or road, and they will travel independently—alone or with family or friends or in groups. Access can usually be described as follows:

- Long-haul access by air is 6000 km or more usually more than about seven hours flying time.
- Medium-haul access by air is between 3000 and 6000 km; about four hours flying time up to about six to seven hours.
- Short-haul access by air is under 3000 kilometers or up to about three to four hours flying time. This will usually include the major regional markets.
- Access by train—mostly national or intraregional.
- Access by road also mostly national or intraregional from neighbouring countries.
- Access by sea mainly from neighbouring and other countries in the region. This does not include cruise ships.

Tourists can be differentiated according to the mode of transport chosen, the distance travelled and whether they are travelling independently or in a group.

The various means of categorizing tourists illustrate the complexity of human behaviour. People share the common characteristics of the species. Beyond this, however, they appear to be infinitely variable. As noted, some of the differences originate in their genetic make-up and sex, major cultural influences, age and marital status, previous education and experience, economic and social status, spiritual and inner life, simple likes and dislikes, interests and passions, etc. One needs a constant flow of market information; keeping track of people, of who exactly they are, and what exactly they want and need.

Some of the psychographic ways of classifying tourists may seem, at times, to be too superficial or fanciful. However, they are still helpful in the review and discussion of tourist behaviour and in shaping future research projects.

5.2.4 Market Research

Successful segmentation, enabling clearly defined marketing targets, is assisted by interconnecting various kinds of data and criteria. As data is built-upon age, nationality, gender, occupation, income, motivations and interests, needs and preferences, lifestyles, stage of life, etc., the picture formed becomes clearer and specific.

Visitor surveys are conducted to supplement the market information obtained from routine tourism statistics. In designing a survey questionnaire, the following points should be noted:

- The purpose should be explained and people thanked for their participation.
- The meaning of questions should be clear and free of any ambiguity.

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- It has to be easy to understand and complete.
- It should be well laid out, organized into clear sections, printed in large clear typeface allowing plenty of space to write answers and comments.
- It should be presented in a logical sequence.
- Questions should not lead the respondent, i.e., suggest or imply an expected answer.

The length of a questionnaire depends partly on the time people have to complete it. It also depends on people's goodwill and the time they are prepared to spend. If tour groups are being asked, they will generally spend some time in the departure lounge before their return journey. They may have to sit and wait for as long as 30 minutes—given that last minute or duty free shopping has been completed. This may be the ideal time to complete a questionnaire. Ideally, each questionnaire should be collected and checked by a survey assistant. Any part that is not filled out or unclear can be clarified immediately with the respondent.

The design of the questionnaire will also depend on the survey methodology and the size of the sample. As noted, the questionnaire has to permit the collection of accurate and useful feedback. It must also facilitate the subsequent correlation and analysis of the data. The more extensive the comments and assessments made by respondents, the harder this is. It will provide complete answers for the following questions about the respondents.

- Who they are and what they do
- Where they stayed
- How long they stayed
- What they did
- Where they went
- How much they spent
- And what they liked or did not and why

It is this last assessment that is essential in improving and developing the product. There are usually no other reliable sources for data on tourist expenditures. Banks and currency exchange agencies can give some data on foreign exchange earnings but not enough to build up an accurate and complete picture.

Surveys can help identify and define market segments. Knowledge has to be built up on each market segment, to provide information on how to develop the product and how to promote and sell more effectively. When segments are grouped together, the value of a visitor survey is seriously diminished. However, it may not be practical to define and isolate segments in too detailed a way.

The sampling method used can take account of a number of the major variables, for example, seasonality and time of the year, the nationality of visitors, age, and whether travelling independently or in a group. With mainstream leisure tourism, there may be pronounced differences between people of different nationalities and cultures. Some market segments can be determined by the reason for travel, for example, it is easy to identify and survey separately business and official travellers and tourists visiting friends and family.

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Special interest visitors can easily be surveyed separately, since they will normally be found together in their related centres. It is, also, easy to identify backpackers and to keep them apart in a separate survey category; it is always best to separate different nationalities. Sampling has to be done in such way that results are representative of the total number of people under study. The likely error or deviation in survey results also has to be calculated. A random sample means that everybody under study has an equal chance of being included. If the sample is to be structured according to particular groups, a stratified random sample may be used. Generally, the more visitors surveyed, the more reliable the results. Surveys where people themselves choose whether to respond or not, such as guest comment cards in hotels are not considered as reliable sample as respondents are self-selected and therefore, not sufficiently representative. Figures C12, C13 and C14 depict different categories of tourists.

A market information system is a system established to study market characteristics and trends. The results of desk research and data collection, the analysis of tourism statistics, and the findings from visitor surveys, will feed into this system. There are many published sources of data, for example, the results of country-specific studies and analyses of particular market segments. These are often prepared and published by specialized research companies. The travel trade press should also be followed closely to monitor various trends and new developments. It is possible to subscribe to a clipping service which will identify and clip all press items of particular interest. Through its statistics, surveys, and market information system, a General Trend Analysis (GTA) can be expected in close collaboration with the private sector, to follow all marketing trends. It should be able to keep in focus the various characteristics of its markets and visitors. However, a GTA would not normally be involved with research of a psychographic nature. This might be carried out by advertising agencies, tour operators or even large hotel companies. These various enterprises will be interested to establish a correlation between choice of holidays, destinations and facilities and particular lifestyles and profiles. Such studies may help to give a clearer idea of who buys what and why, enabling promotional and sales efforts to be better directed. Motivational research of this kind is often carried out through group discussions and indepth interviewing.

Where research is carried out by private sector interests, they should be encouraged to share the results with the GTA. While marketing information may give companies a competitive advantage, the GTA represents the interests of the sector as a whole. One should try to reconcile any conflict between these two sets of needs.

Household surveys are conducted in many countries to establish consumption patterns and trends. Some surveys concentrate on travel and tourism, for example, the United Kingdom Tourism Survey organized by the four UK national tourism boards.

5.2.5 Trends in International Tourism

Tourism demand has grown rapidly throughout the 1970s and 1980s, with world international tourist arrivals increasing from 160 million in 1970 to 405 million in 1989. This growth has not been steady, and infact for 1982 and 1983, a decline in tourist arrivals was recorded. However, in general, tourism demand has stood up well to economic pressures. For example, international tourist arrivals continued to grow in the mid-1970s in spite of the massive oil price rises and supply shortages that occurred. After a sluggish growth followed by decline in the early 1980s (the 1983 level of world

international tourist arrivals was below the 1980 level), the growth in tourism demand recovered and accelerated over the 1986–88 period.

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International tourist arrivals were grouped by region in 1988. It can be seen that Europe dominates in terms of international tourism, attracting 64 per cent of world arrivals. The Americas attract 19 per cent of world arrivals, and are followed by East Asia and the Pacific (11 per cent), Africa (3 per cent), the Middle East (2 per cent) and South Asia (1 per cent).

Although Europe and North America together account for nearly 80 per cent of worldwide international tourist arrivals, their market shares have declined during the 1970s and 1980s. Market shares of developing and newly developed countries, particularly those in the East Asia and the Pacific region, have seen a sharp increase. Factors that have contributed to include the opening up of new air routes, provision of relatively cheap inclusive tours and massive increase in outward international tourism from Japan which has resulted in increased intra regional tourism. Most international tourism is intra regional— it originates in countries of the same region but this varies considerably with the destination region under consideration. For example, whereas about 80 per cent of arrivals in Europe and North America are intra-regional, this figure reduces to about 25 per cent for Africa. This partially explains why Europe and North America have high market shares of world arrivals. High levels of disposable income in Europe and North America facilitate international tourism, most of which takes place within the regions. However, country size and ease of access to other countries also affects the level of international tourist arrivals. Thus, a substantial part of the discrepancy between Europe's market share and that of the Americas may be accounted for by the following:

(i) Europe contains several relatively small countries.

(ii) Much intra regional international tourism within Europe takes place between neighbouring countries with common land borders.

By contrast, the USA is an enormous country with great variation in climate, scenery, facilities, and so on. Hence, a domestic trip within the USA, which involves crossing a state boundary, may well be equivalent of an international trip within Europe. The size and varied nature of the USA compared with individual European countries result in much of US's domestic tourism being equivalent of much international tourism within Europe.

The major tourism generating countries are ranked according to international tourism expenditures. In 1987, West Germany was ranked first with a total expenditure of more than $23 billion, followed by the USA, the UK, Japan and France.

The major tourism receiving countries are ranked according to international tourism receipts. In 1987, Spain was ranked first with total receipts of nearly $15 billion, followed by the USA, Italy, France and the UK. The USA, UK and France, thus, feature in the top five countries as both origins and destinations, when demand is measured in terms of tourist expenditures/receipts. West Germany and Japan (countries characterized in recent history by current account surpluses mainly achieved through the export of manufactured goods) are primarily generating countries, and Spain and Italy (traditional Mediterranean destinations) are primarily receiving countries.

The definition of the term *tourist* is wide-ranging and when tourism demand is broken down according to the purpose of visit, the following categories can be identified:

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holidays, business trips, visits to friends and relatives and miscellaneous visits. About 70 per cent of international tourist arrivals throughout the world are for holiday purposes, and of the remaining 30 per cent of tourist trips, approximately one-half are made for business purposes.

Holidays are the most important tourism market. This market is characterized by freedom of choice on the part of the individual in terms of selection of destination, transport mode, and so on, and by strong competition among the various segments of the tourism industry (including destinations) that supply the market. Unlike business travel, where the existence of business contacts largely determines the destination to be visited, in the case of holiday tourism, the individual can select from among a wide variety of destinations. Thus, considerations such as price become very important. Holidaymakers can be divided into those who are conservative and risk-averse and those who wish to try something new and are willing to accept some risk. The conservatives tend to take the same type of holiday year after year often returning to the same country once they have found something they enjoy (and even to the same resort or hotel), whereas the risk-takers seek out new experiences in terms of climate, culture, scenery, and so on.

Different countries are marketed for the different types of holiday attractions they offer in mass-market. For example, Mediterranean destinations offer 'sun/sea/ sand holidays', whereas Austria and Switzerland offer 'lakes and mountains holidays' which concentrate on scenic attractions in the summer and skiing holidays in the winter. There are now also many 'exotic' long-haul destinations on offer to places such as South America and Southeast Asia, where the emphasis is very much on experiencing something different. A range of special-interest holidays include pony-trekking, rambling, cycling, yachting, bird watching, farm tourism, canal cruising, and so on. The short-break sight-seeing holiday is also proving increasingly popular. Figure C15 depicts cycling as a special-interest holiday; Figure C16 is about a few tourists bird watching.

5.2.6 Business Travel

Business travel is an important segment of the tourism market, and in certain sectors it plays a major role. Although only about 15 per cent of tourist arrivals are for business purposes, tourist spending on a business trip is likely to be much higher than those on a holiday, so the contribution of business tourism to the total will be higher. Furthermore, as far as transport is concerned, business travellers comprise a disproportionately high proportion of air travellers (50 per cent). As far as accommodation is concerned, they comprise a disproportionately high proportion of hotel guests, particularly in the four and five-star range (60 per cent).

The business travel market is characterized by relative lack of seasonality, last-minute booking and inelastic response to price a to the extent that seasonality does not exist at all. The demand for business tourism is likely to be lower at times of peak holiday demand, because the businessmen themselves may well be on holiday. An important attribute of short business trips is that they usually take place during the week, so hotel accommodation tends to be used little for business purposes at weekends. As business travel is often large town/city-oriented, hotels in these business centres usually offer very attractive rates at weekends to encourage holidaymakers to stay. Many business trips are booked only a short time ahead and business travellers usually wish to spend a minimum amount of time travelling. This means that business

tourists require maximum flexibility. In particular, they do not want restrictive conditions attached to flight tickets and are prepared to pay a premium price for this. Furthermore, they usually require good quality accommodation, both in order to be able to function well and also to create the right image with the business contact being visited.

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A particular form of business tourism is conference/congress/convention tourism, and considerable attention has been focused on this form of tourism in recent years with the development of large conference centres built purposely in many cities and seaside resorts. However, most conferences take place in hotels and educational establishments (universities, colleges). Conference tourism is not as predetermined as other forms of business tourism, conference organizers can choose the location for the conference as on the basis of facilities, price, etc. Thus, conference destinations are in strong competition with each other to attract conferences. Friel identifies the following criteria, which are considered desirable if a conference destination is to be successful:

- It should be attractive to tourists.
- It should have a variety of meeting facilities.
- It should have a range of good accommodation.
- There should be good access by air/road/rail.
- There should be a civic commitment to hosting delegates.
- There should be a coordinated approach to destination marketing and visitor servicing.

Tourists visiting friends and relatives tend to spend much less per day than holidaymakers. They often stay with their friends/ relatives and, therefore, do not make use of commercial accommodation. Similarly, daily expenditure on food and drink in restaurants, etc., is likely to be considerably lower than would be the case for holidaymakers.

Furthermore, this category almost certainly generates additional local spending on food, drink, attractions, and so on. In fact, tourists visiting friends and relatives may face higher travel costs than those incurred by inclusive tour holidaymakers, who benefit from the bulk-purchasing power of tour operators.

5.2.7 Seasonality in Tourism

'Seasonality' refers to the tendency of tourist flows to be concentrated into relatively short periods of the year. In Europe and North America, for example, the summer months of July and August are when a large proportion of the population goes on holiday. This is mainly due to natural features, such as climate, but also partly due to institutional features, such as restrictions on when employees may take leave and school holidays.

Seasonality: Seasonality refers to the tendency of tourist flows to be concentrated into relatively short periods of the year

In recent years, ski holidays have grown enormously in popularity, which spreads the tourist season into the winter months for appropriate destinations. Furthermore, many holidaymakers now go on *winter sun* holidays. Seasonality causes particular problems for employment, in that workers employed in the tourism industry for part of the year may have no opportunities for employment during the rest of the year. In addition, the seasonal nature of employment inhibits training and career progress. Seasonality can result in overcrowding and overuse of facilities in destinations during part of the year, while for the remainder of the year facilities may be considerably underused or not used at all, resulting in inefficient use of resources and loss of profit potential.

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There are four principal strategies for managing seasonality: changing the product-mix, market diversification, differential pricing and encouragement/ facilitation by the state of the staggering of holidays. Changing the product-mix involves the creation and marketing of new, different attractions. Thus, a summer beach resort may set out to attract the conference trade in the off season, or it may decide to stage some special event, or to promote special-interest holidays that would be appropriate out of season.

The construction of all-weather facilities, such as covered leisure complexes for year-round use are a means of extending the season. A highly successful example in Northern Europe is the development of Centre Pares, where accommodation is clustered around an all-weather leisure area incorporating wave-pool, water slides, and so on. Diversification of the market to reach new potential customers may also be used successfully to counteract the effects of seasonality. North Americans, particularly from the northeast of USA and Canada, have been travelling to Florida for winter holidays for considerable time. The desire to escape the harsh winters for the warmth and sun of Florida has been a strong pull, and many retired North Americans spend several months there each winter. More recently, however, Florida has been marketed as a summer destination to UK residents, and the British have travelled there in increasing numbers. Pricing policies can also be used to reduce seasonality. By the introduction of price reductions in off-season, tourists can be encouraged to take holidays during this period. Similarly, if tourist resorts become overcrowded during peak periods, price rises can be used to reduce the seasonal congestion. State initiated measures to stagger holidays can also be successful in reducing the seasonality problem, for example, the staggering of school summer holidays over a longer period and the encouragement of the staggering of industrial holidays.

In spite of efforts to reduce seasonality in tourism, only limited success has been achieved. The prime importance attached to the weather by many holidaymakers means that only a certain amount of flexibility is possible.

5.2.8 Measuring Tourism Demand

Tourism demand functions embody the relationship between the demand for international tourism and those factors that influence this demand. They are economic relationships that, when estimated, permit the impact of each of these factors on tourism demand to be identified. Clearly, the group of variables that influences international tourism demand will depend upon the purpose of visit under consideration. For example, the demand for business travel will depend upon where major business centres are located, whereas the demand for visits to friends and relatives will depend upon where close historical and/or cultural, ties exist. As the majority of international tourist trips take place for holiday purposes (approximately 70 per cent), and it is only for holiday trips that individuals are completely free to choose the destination, transport mode, and so on, we shall just concentrate on demand functions that explain the demand for international holiday tourism.

The demand for international tourism is measured in terms of the number of visits to a foreign country, or in terms of expenditure by visitors in the destination country. Occasionally, however, population features as a separate explanatory variable rather than demand and is expressed in per capita form.

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Income is also included as an explanatory variable; as holiday visits are under consideration, the appropriate form of measuring this variable is personal disposable income.

Price is usually included in demand functions. For international tourism, there are two elements of price: costs incurred in reaching the destination, and costs to be met while at the destination. Transport cost can be measured by using representative air fares between the origin and destination for air travel and representative ferry fares and/or petrol costs for surface travel. Transport cost should feature in the model in real terms in origin country currency.

It may be possible to measure the cost of tourism, for a particular destination, with the help of data on cost of living. Otherwise, the Consumer Price Index in a country may be used to represent tourists' cost of living. Martin and Witt have shown that this is likely to be a reasonable proxy for the cost of tourism variable. Tourists' cost of living should be specified in real terms in currency of the country visited. It is suggested that the exchange rate should also appear as an explanatory variable influencing international tourism demand; although exchange rates are already incorporated to some extent in the other price variables. In practice, people may be more aware of exchange rates than relative costs of living for tourists in the origin and destination countries, and thus pay attention to this price indicator.

Economic theory suggests that the prices of substitutes may be important determinants of demand. Potential tourists compare the price of a foreign holiday with the price of a domestic holiday while making a decision. However, they also compare the costs of holidaying in a particular foreign destination with the costs involved in visiting other foreign countries. Thus, substitute travel costs and substitute living costs may be important determinants of the demand for international tourism to a given destination. Substitute prices can be accommodated in the model through the inclusion of:

(i) A weighted average substitute transport cost variable

(ii) A weighted average substitute cost of living variable

The weights should reflect the relative attractiveness of the various destinations to residents of the origin under consideration, and are often based on previous market shares.

Dummy variables can be included in international tourism demand, to measure the impact of one-off events. These are specially constructed variables, which take the value when the event occurs and not otherwise. For example, the 1973 and 1979 oil crises are likely to have temporarily reduced international tourism demand on account of the resultant uncertainties in the world economic situation. Tourism flows to Greece were lower than expected in 1974 because of the threat of war between Greece and Turkey as a result of the Turkish invasion of Cyprus. When governments impose foreign currency restrictions on their residents, this is likely to reduce outward tourism, as was the case in the UK between 1966 and 1969. Foreign currency restrictions can also alter the distribution of foreign holidays. Measurement of the impact of mega-events (such as the Olympic Games) on tourism flows through the use of dummy variables has already been discussed.

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Another trend that may be included to measure international tourism is that of a change in the popularity of a destination country over a period of time. This may be considered as a result of changing tastes but it also captures the time-dependent effects of all other explanatory variables, such as changes in air service frequencies and demographic changes in the origins.

Governments through tourism departments often spend considerable sums on promoting their countries as tourist destinations, as do carriers, particularly airlines. Hence, promotional expenditure is expected to play a role in determining the level of international tourism demand and thus should feature as an explanatory variable in the demand function. The appropriate form of the variable is promotional expenditure for the destination in the origin.

A major problem regarding the inclusion of promotional variables as determinants of tourism demand relates to difficulties in obtaining the relevant data. The reason for this may be attributed to the fact that the impact of advertising on tourism demand may be distributed over time, so that advertising in a given period is likely to influence not only demand in that period but also in subsequent periods. In addition, the effectiveness of a given level of advertising expenditure in influencing the level of international tourism demand may vary across media.

A lagged dependent variable is sometimes included in tourism demand functions to measure habit persistence and supply rigidities. It has been found that when tourists visiting a particular country have a positive experience, they tend to return to that destination. Furthermore, knowledge about the destination spreads through word of mouth. In fact, word of mouth recommendation plays a more important role in destination selection than commercial advertising.

Another variable that needs to be given due consideration is supply constraints which include shortages of hotel accommodation, passenger transportation facilities and trained staff. However, once the tourist industry to a country has become highly developed, it is unlikely to dwindle rapidly. The hotel industry will have to invest large sums of money in the country and contacts with tour operators, airlines and travel agencies will have to be built up.

The tourism demand function may be estimated by regression analysis using historic data. The empirical results obtained show the estimated quantitative relationship between foreign holiday demand and the influencing factors. The estimation process is as follows:

- Specify the demand function in mathematical form (linear, or more commonly log-linear).
- Assemble data relevant to the model.
- Use the data to estimate, by regression, the quantitative effects of the influencing variables on demand in the past.
- Carry out tests on the estimated model to see if it is sufficiently realistic.

When the tourism demand function is specified in log-linear form, a resulting characteristic is that the estimated coefficients may be interpreted directly as elasticities. It is necessary to evaluate the parameter estimates obtained in a regression model, in terms of sign and magnitude, in order to determine whether these estimates are theoretically meaningful. Economic theory imposes restrictions on the signs and values

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of the parameters in demand functions, and the estimates need to be examined to see whether they satisfy these constraints. For example, foreign holidays are 'superior' goods and thus positive income elasticity is expected. In fact, most foreign holidays are regarded as 'luxuries' and in such cases the magnitude of the income elasticity is expected to exceed unity. Similarly, the own-price elasticity of demand should be negative and cross-price ties for substitutes, positive. Changes in consumer tastes may move towards or away from a particular holiday and therefore, the variable could have a positive or negative coefficient. The promotional expenditure and lagged dependent variable coefficients are both expected to be positive. If an estimated parameter has an incorrect sign or does not satisfy the restrictions on magnitude, it should be rejected, as it is theoretically implausible. In general, an unexpected parameter sign or size is the result of deficiencies in the model.

The empirical results may also be evaluated in terms of statistical measures of accuracy and significance of the forecasting equations. For example, a test can be employed to examine the hypothesis that a particular explanatory variable coefficient is significantly different from zero, or whether the estimated value may simply have been generated by chance. If the hypothesis that a coefficient is equal to zero is true, then the corresponding explanatory variable does not influence the dependent variable and should be excluded from the tourism demand function. However, when a parameter is not statistically significant, this does not prove that there is no relationship between the explanatory and dependent variables; the insignificance of the parameter may be a result of statistical problems. Prior belief plays a vital role in the decision regarding which explanatory variables should be retained in the equation in view of the statistical evidence. If there are strong theoretical grounds for expecting a particular explanatory variable to influence the dependent variable and a 'correct' coefficient sign is estimated but the parameter is insignificant, the explanatory variable should not be eliminated from the equation, as weak support has been obtained for the hypothesis. If the correct sign is estimated for a coefficient and is statistically significant, this provides strong support for the hypothesis that the variable has an impact on the dependent variable.

The magnitudes of the various elasticities are of interest. For example, if the demand for tourism is price inelastic, then a price reduction reduces total expenditure on tourism and price rise increase expenditure. If, however, the absolute value of the price elasticity exceeds unity (that is, demand is price elastic), then a price reduction increases expenditure and a price rise reduces expenditure. Clearly, therefore, the impact of a price change on total expenditure on the tourism product depends critically on the magnitude of the elasticity.

Martin and Witt have estimated a model for tourism, for four countries, West Germany, USA, UK and France, using data for the period 1965 to 1980. It is clear that the importance of a particular variable in explaining tourist flows varies considerably with the origin-destination pair under consideration. Building models for USA-outward tourism proved difficult, with the result that several of these are rather simplistic, and in general contain fewer explanatory variables than the models for UK outward tourism. The main factors affecting tourism demand by USA residents appear to be income and absolute costs. While in most overseas holidays seem to be regarded as luxuries, Italy is an exception. Roman Catholics feel an urge to visit Italy. The price elasticities also vary considerably. In terms of tourists' living costs, tourism demand is price elastic for travel from the USA to France and West Germany, but price is inelastic for travel to Canada and the UK. In terms of transport costs, demand is price inelastic. In the

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models explaining UK-outward tourism, not only do the costs of competing holidays play a more important role than for USA, but also the exchange rate. The 1974 oil crisis appears to have had a marked impact on international tourism demand by UK residents, featuring in five out of six models, and the currency restrictions appear to have affected those destinations with relatively high tourists' living costs. All income elasticities exceed unity with the exception of Greece, which has a surprisingly low coefficient value. The coefficients estimated for tourists living costs suggest that demand is price elastic for travel from the UK to Greece and Italy, but price inelastic for travel to Austria, France and West Germany. Air travel costs do not feature in the models, but the estimated surface travel cost elasticities show that demand is price elastic for West Germany and price inelastic for Greece, Italy and Spain.

Major demographic changes are taking place in main tourism generating countries, and this is likely to affect both the volume and types of holidays undertaken. For example, an increasing proportion of the population will consist of retired people, couples with young children, and a declining proportion will consist of young singles. Also, changes in consumer preferences may have a profound impact towards activity holidays. Clearly, substantial changes in the amount of holiday entitlement will also influence the level of demand.

5.2.9 Forecasting in Tourism

It is widely recognized that one of the most important functions of the manager at all levels in an organization is planning, and planning creates a substantial need for forecasts. Reliable forecasts of tourism demand are essential for efficient planning by airlines, shipping, companies, railways, coach operators, hoteliers, tour operators, food and catering establishments, providers of entertainment facilities, manufacturers producing goods (primarily for sale to tourists), and other industries connected with the tourism market. Such forecasts are also of great interest to governments in origin and destination countries, and to national tourist organizations.

Both the need for forecasts and the importance of reliable forecasts have been stressed by several authors working in the tourism field. For example, Wandner and Van Erden point out that, 'since governments and private industry must plan for expected tourism demand and provide tourism investment goods and infrastructure, the availability of accurate estimates of international tourism demand has important economic consequences.'

Also, Archer states that: 'No manager can avoid the need for some form of forecasting: a manager must plan for the future in order to minimize the risk, failure or, more optimistically, to maximize the possibilities of success'. In order to plan, managers must use forecasts. Forecasts will always be made, whether by guesswork, teamwork or the use of complex models, and the accuracy of the forecasts will affect the quality of the management decision. In the tourism industry, in common with most other service sectors, the need to forecast accurately is especially acute because of the perishable nature of the product. Unfilled airline seats and unused hotel rooms cannot be stockpiled and demand must be anticipated and even manipulated.

Considerable benefits derive from an accurate forecasting system. If forecasts of tourism demand are too high, then firms in related industries will suffer. For example, there may be empty seats on airplanes and coaches, empty rooms in hotels, unoccupied

apartments, unused hire cars, and so on. It is likely that, in general, capital investment will be excessive, the labour force will be too big and excess stocks will be held of goods normally sold directly to or used by tourists. If, on the other hand, forecasts of demand are too low, then firms will lose opportunities. For example, there may be insufficient hotel accommodation or too few flights to cater for all those wishing to visit a certain area at a given time. Even if supply can be expanded to a limited extent, at short notice, this is likely to impose additional costs on firms as less efficient aircraft are used, and excessive overtime is worked. A broad range of techniques is available for demand forecasting in tourism and the main quantitative methods are now reviewed.

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Univariate Time-Series: Univariate time-series methods are non-causal quantitative techniques, i.e., they assume that a variable may be forecast without reference to the factors that determine that variable past history on the forecast variable is simply extrapolated

Univariate Time-Series

Univariate time-series methods are non-causal quantitative techniques, i.e., they assume that a variable may be forecast without reference to the factors that determine that variable past history on the forecast variable is simply extrapolated. Univariate time-series methods determine future values for a single variable through a process of identifying a relationship for past values of the variable. Thus, a great problem with forecasting by extrapolation is that it presupposes that the factors that were the main cause of growth in the past will continue in the future, which may not be the case. In an industry as volatile as international tourism, and one that is influenced by so many factors, trend extrapolation is a technique that should be used with extreme caution. It is rarely possible to justify time-series models on the basis of theory. The reasons for their use are essentially pragmatic and often generate acceptable forecasts at low cost. Furthermore, univariate time-series methods may be used where causal models are inappropriate on account of a lack of data or incomplete knowledge regarding the causal structure.

Although time-series extrapolation models are 'naive' in the sense that the impacts of the forces that determine the behaviour of the time-series are not taken into account, they often predict relatively well. Several of these methods are considered below:

Exponential smoothing

Exponential smoothing models provide a relatively simple set of forecasting methods that tend to perform well in practice. The single exponential smoothing model, in effect, attempts to reduce forecast error by correcting last period's forecast by a proportion of last period's error:

$$F_{t+1} = F_t + k(x_t - F_t)$$

where,

x_t is the value of a time-series in period t.

F_{t+1} is the single exponential smoothing forecast of x_{t+1}, (i.e., the, forecast for one period ahead), and

k is a constant, such that $0 < k < 1$.

Equation states that the forecast for period t + 1 is given by the forecast for period t plus a proportion (k) of the forecast error for period t. This equation may be rewritten to give:

$$F_{t+1} = kx_t + (1 - k)\, F_t$$

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Single Exponential Smoothing

Single exponential smoothing methods are only applicable to stationary series, i.e., to data without steps, trend or seasonality components, and with constant variance. For non stationary series, methods other exponential smoothing, can be used. Adaptive smoothing models can accommodate sudden upward or downward steps in a series; Brown's Double Exponential Smoothing Model can be used for time-series containing a trend, and the Holt-Winters' Double Exponential Smoothing Method is specifically designed for time-series exhibiting seasonality.

Trend Curve Analysis

Trend Curve Analysis is widely used in tourism forecasting situations. In general, regression analysis is used to find a curve of best fit through time-series data, which is then projected forward into the future. Trend curve analysis is relatively quick and easy to use and, using transformations, can be employed to produce forecasts from data showing a range of patterns, for example, straight line progressions, exponential growth, or patterns that display a gradual approach to a saturation level.

The observed values of a time-series are usually the result of several influences, and here we are concerned with isolating and measuring those parts of the time-series that are attributable to each of the components. Customarily, time-series variations are considered to be the result of three or four basic influences: secular trend, seasonal variations, irregular or random changes, and possibly cyclical fluctuations.

Classical Decomposition Approach

The classical decomposition approach assumes that the observation of the time-series at period t, x, can be represented as:

$$X_t = T_t \times S_t \times I_t$$

Where

T represents the trend value

S represents the seasonal component

I represents the irregular (unpredictable) component, and

t represents the time period

Sometimes an additional longer term cycle component is added to the classical decomposition model, but often this factor is ignored. This can be justified if there are insufficient data to detect it, which may well be the case with tourism series. Classical decomposition is best suited, where trend or seasonality are marked.

An alternative approach to decomposition is provided by the Census XII model originally devised for the US Bureau of Census. This extends the basic decomposition model of equation by allowing the trend term $T_{t'}$ to be non-linear.

Box-Jenkins Univariate Method

The Box-Jenkins univariate forecasting method is a highly sophisticated technique and is more difficult to apply than the other univariate time-series methods. The models, usually, incorporate auto-regressive and moving average terms; the auto regressive component implies that the forecast variable depends on its own past values, and the

Check Your Progress

1. What are the two reasons for which people travel?
2. What are the characteristic and needs of people representing each market segment for the purpose of tourism?
3. Name the four principal strategies for managing seasonality.
4. List the techniques and main quantitative methods used for demand forecasting in tourism.

moving average component implies that the forecast variable depends on previous values of the error term. These Auto Regressive Integrated Moving Average (ARIMA) models are very flexible; they can represent many types of stationary and non-stationary time, series. Furthermore, the models contain few parameters. The Box-Jenkins model-building approach can provide relatively accurate forecasts, but it involves complex mathematical and statistical algorithms, and subjective judgments on the part of the modeller. Experience is an essential prerequisite for improving the final models in the analysis of a time-series and thus, for successful application of the technique.

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The econometric approach to forecasting international tourism demand involves the use of regression analysis to estimate the tourism demand function and then combining the estimated relationship with forecasts of the explanatory variables to generate tourism demand forecasts. A major advantage of econometric forecasting is that it explicitly takes into account the impact on demand of changes in the causal variables. Furthermore, econometric models may be used for active forecasting, that is, to assess the consequences of possible changes in the causal factors. An additional advantage is that, econometric forecasting provides several statistical measures of the accuracy and significance of the forecasting equations.

Econometric models, however, may be inappropriate in certain cases and are generally more expensive than non-causal models. Econometric forecasting also requires considerable user-understanding in order to develop the correct relationships. A major problem in attempting to generate accurate forecasts of tourism demand with econometric models is the difficulty of obtaining accurate forecasts of the variables that influence demand: income, inflation, exchange rates, and so on.

The Box-Jenkins multivariate approach to forecasting is considerably more complicated than the Box-Jenkins univariate method. It is a causal forecasting method in that other variables are allowed to influence the forecast variable. As with the Box-Jenkins univariate method, the model incorporates auto–regressive and moving average terms, and complex mathematical and statistical algorithms are involved. However, the existence of more than one time-series results in additional modelling problems. Again, experience is essential in order to apply the technique successfully.

5.3 HOTEL SERVICE MARKETING

A **hotel** is an establishment whose primary purpose is to provide accommodation to a bona fide traveller along with additional services such as food and beverage services, housekeeping services, laundry services and uniformed services.

Hotel: A hotel is an establishment whose primary purpose is to provide accommodation to a bona fide traveller along with additional services such as food and beverage services, housekeeping services, laundry services and uniformed services

5.3.1 Classification of Hotels

Hotels can be divided into various categories. The criteria for classification are based on:

(i) Size or number of rooms
(ii) Location
(iii) Type of clientele
(iv) Length of stay
(v) Levels of service
(vi) Management and affiliation

(vii) Ownership of guests

(viii) Unusuality of hotels

Now, let us look at these categories in detail.

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(i) Classification on the basis of size or number of rooms

Hotels are classified on the basis of size or number of rooms into the following:

- ***Small hotel:*** It is a hotel with 100 rooms or less.
- ***Medium sized hotel:*** This is a hotel which has 100–300 rooms.
- ***Large hotels:*** These are hotels with more than 300 rooms.
- ***Very large hotels:*** These are hotels that have more than 1000 rooms.

(ii) Classification on the basis of location

Hotels have been classified on the basis of location into the following:

- ***Downtown hotels:*** They are also called commercial, city or business hotels. They are located in the heart of a city or town. Some examples of downtown hotels are the Blue Diamond in Pune and Oberoi Grand in Kolkata (Figure 5.1) that primarily cater to businessmen, tour groups, individual tourists and small conference groups.



Fig. 5.1 *Oberoi Grand (Kolkata)*

- ***Commercial hotels:*** They provide a wide range of room types such as single rooms, double rooms, junior suites, suites and other essential facilities such as conference rooms and cocktail lounges. Most of the commercial hotels have restaurants, coffee shops, business centres with secretarial facilities, fax services along with the Internet and Xerox facilities. In addition, these hotels also offer room service, laundry-valet, uniformed services (like concierge) and transport facilities (such as airport pick-up and drop).
- ***Airport hotels:*** These hotels are located in the close vicinity to international and domestic airports of major cities and towns. Some well-known airport hotels in India are Airport Ashok in Kolkata (Figure 5.2) and Airport Centaur in New Delhi, that cater primarily to the airline passengers (with cancelled flights) and airline crew members. Generally, the guests in these hotels stay for a very short duration (usually one or two days). They have well-furnished guestrooms with restaurants and coffee shops and offer various other facilities such as airport pick-up and drop through the hotel-owned cars and buses which are very important for passengers and crew members.



Fig. 5.2 Airport Ashok (Kolkata)

- ***Resorts:*** These are famous for their scenic beauty as these are located in exotic locations such as beaches, hill stations and forests which make them major tourist attractions. Examples of resorts are Fort Aguada Beach Resort in Goa and Vanya Villas in Ranthambore (Figure 5.3). They cater to the leisure travellers, families, holiday makers and vacationers who visit this special category of hotels to enjoy their vacations. The resorts have various recreational facilities such as tennis courts, golf course, skiing grounds, amusement parks for children in addition to the important facilities such as accommodation, food and beverage service, valet service and uniformed service.



Fig. 5.3 Vanya Villas (Ranthambore)

- ***Motels:*** The term 'motel' originated from the word *mote hotel* which is an American concept. These hotels are located on the national highways and other important roads and mostly cater to the various passerbys on the highways. Motels are not very large and have fewer and inexpensive rooms providing basic facilities. However, they do have enough space for parking vehicles of guests and visitors (Figure 5.4).



Fig. 5.4 A Motel

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- ***Suburban hotels:*** These are located on the outskirts of cities and towns (Figure 5.5). They cater to the official and business groups wishing to hold conferences and seminars in a peaceful and calm environment, away from the cities. These hotels also provide extensive accommodation and food and beverage facilities and have huge conference rooms and seminar halls. They also provide a wide range of conference and seminar equipment.



Fig. 5.5 *Jaypee Palace Hotel (Agra)*

(iii) Classification on the basis of type of clientele

Hotels are classified on the basis of clientele as follows:

- ***Downtown hotels:*** They cater to the business traveller, individual traveller and tourist groups.
- ***Airport hotels:*** These hotels cater primarily to passengers with cancelled and delayed flights and to airline crew members.
- ***Resorts:*** They cater to tourist groups, families and other vacationers.
- **Motels:** They cater to passers-by, passengers and other transit guests with vehicles.
- ***Conference centres:*** They especially cater to conference, meeting and seminar attendees and provide overnight accommodation to these guests; example, Hotel Ashoka in New Delhi. These hotels provide various kinds of equipment required for conferences and seminars such as audio-visual equipment (overhead and LCD projectors), various seating arrangements, display screens, flipcharts and other important technical assistance required during meetings and seminars.
- ***Convention hotels:*** They are very large hotels (with 1000 to 3000 rooms) especially constructed to cater to the needs of housing the convention attendees. Convention hotels are very common in the US and mostly attract the convention market of regional, national and international associations. These hotels offer a large number of business services to guests (secretarial assistance, fax machines, computers) along with other food and beverage service facilities, housekeeping and transport services.
- ***Casino hotels:*** These are a special class of hotels which cater to the needs of guests who are interested in gambling. An example of a casino hotel is Gambler’s Paradise in Arizona, USA. These hotels are very common in the US and offer a vast range of gambling facilities with the casinos of the hotels operating all through the day and night, throughout the year and these are a major source of revenue for these hotels. These hotels attract guests through theme parties and extravagant shows and thus, earn a large amount of money. Apart from gambling facilities, these hotels also provide accommodation with exclusive guestrooms and also provide a large range of food and beverage service facilities.

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- ***Suite hotels:*** They cater to lawyers and the elite class of businessmen, film personalities, politicians and various executives. Since these hotels mostly have suite rooms which have a sitting room and bedroom, the privacy of the guest is maintained.
- ***Boutique hotels:*** These hotels have been tagged with the term 'boutique' due to their intimate size, idyllic settings, highly personalized service and outstanding attributes.

(iv) Classification on the basis of length of stay

Duration of stay forms another basis of classification for hotels as the following suggest:

- ***Extended stay hotels:*** The travellers and tourists stay for a longer duration, that is, more than one month. Such hotels are very similar to the suite hotels but the guestrooms of these hotels offer kitchen facilities. These hotels generally provide elaborate world-class services to the guests and hence are targeted towards budget minded tourists who require reduced hotel service.
- ***Semi-extended stay hotels:*** Also called residential hotels, guests stay here for three to five days and are widely used by vacationers as well as business travellers. They combine the features of extended stay hotels and transient hotels.
- ***Brief stay hotels:*** They are also known as semi-residential hotels. Guests go to these hotels for a very short stay which range from a few hours to one night. These hotels generally give discounts called 'leeway' to the guests staying for a few hours and a reduced or discounted rate is charged from the guests.

(v) Classification on the basis of levels of service

Hotels can be classified on the basis of the services provided by them into the following:

- ***World-class service hotels:*** These hotels are targeted towards the elite classes, politically important people and other celebrities. They offer excellent accommodation, food and beverage and uniformed service to the guests such as guestrooms with world-class decor and finish, private lounges and dining rooms along with upscale restaurants, concierge service, valet parking service, dry cleaning and laundry valet service. The rooms of these hotels are built in a modern way and are equipped with all supplies such as personalized stationery, beautiful set of bathroom supplies including shaving sets, morning kits, herbal shampoos, soaps, large sized bath towels, shower caps, bath robes and a large number of other amenities. One of the special features of these hotels is the 'club floor' or 'tower' which are separate floors or buildings, constructed for very important guests to provide them with comfortable accommodation and security. These floors or buildings have restricted entry for the staff as well as visitors to ensure complete privacy to the guests. The public areas of these hotels are well decorated with exquisite floorings, furniture and furnishings making these hotels a piece of art. There are round-the-clock coffee shops, specialty restaurants, banquet halls and conference rooms in these hotels. The world-class service hotels maintain a high ratio of staff members to guests, which is generally one or more than that. This high ratio of staff members helps them to offer highly personalized service to the guests.
- ***Middle-class service hotels:*** These hotels have the largest target market as they cater to the largest segment of the tourist population, which consists of businessmen, families and individual travellers. Although middle-class service hotels have a high staff-to-guest ratio, they do not offer extremely personalized

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service to the guests as it becomes an expensive affair for the guests. The guestrooms of these hotels are equipped with the basic amenities and supplies required for a comfortable stay. The stays at middle-class service hotels are comparatively less expensive than the world-class service hotels.

- ***Economy or limited service hotels:*** These hotels are increasing in number day-by-day, due to the requirements of the travellers for cheaper accommodation as compared to the world-class and middle-class service hotels. These hotels mainly cater to budget-minded travellers such as families with children, retired persons, tour groups as well as some business people who require clean and inexpensive guestrooms with least amenities, required for a modest stay. The economy class service hotels have less staff-to-guest ratio and generally do not provide elaborate food and beverage service and other types of service offered in the world-class and middle-class service hotels. Generally, these hotels offer limited food and beverage service, some basic amenities in the guestrooms such as linen and soaps and sometimes, they may have small meeting rooms for conferences.

(vi) Classification on the basis of management and affiliation

The following are the various types of hotels on the basis of affiliation:

- ***Chain hotels:*** These are hotels which are affiliated to others and are owned or affiliated with other property. Examples of chain hotels are the Taj group of hotels, the Oberoi group of hotels, etc. They enjoy large economies of scale, as all the properties of the chain enjoy the benefit of advertisement and promotion, as it is the brand which is being promoted rather than the individual properties. All of them have management information systems, reservation systems, national purchasing contracts and common architectural designs.
- ***Independent hotels:*** These are hotels which do not have any recognizable ownership and also do not have any management affiliation similar to the chain properties similar to Bristol in Gurgaon. They do not have to obey the rules and regulations which the properties of a chain have to follow to maintain their affiliation.

The following are the various types of hotels on the basis of management:

- ***Management contracts*:** The concept of management contracts originated in the US in 1970 and was immensely successful thereafter. A management contract is a contract signed between an individual property owner (who might not have fair knowledge about the management of hotels) and a hotel management company to look after the day-to-day administration and management of the hotel. In return, the hotel management company would get a commission called the management fee, which is generally 1 per cent–8 per cent of the total revenue generated by the hotel. Sometimes, they also get an additional incentive fee which is a percentage of the net profit generated by the hotel property. Although a management contract gives total control of the hotel property to the hotel management company, the legal and financial responsibilities lie ultimately with the owner. A chain acting as the management company for a particular property has total control over the standards and quality of each property and this benefits both the chain and the owner.
- ***Franchising:*** The concept of franchising was developed in 1960 in the US. In the franchising process, an individual builds a hotel property and enters into an

agreement with a hotel company rather than operating as an individual property. In this case the individual entity is called 'franchisee'. Thus, the hotel company called 'franchisor' agrees to grant the right to the franchisee to conduct the business according to the pattern established by the company. The individual owner gains a lot from the franchising agreement as the new property enjoys the name and reputation of the franchisor, receives assistance from the company regarding the technical know-how to run the property and above all, also enjoys a central reservation system and sales and marketing assistance to run the property.

The franchisee in return pays a fee to the franchisor which includes an initial franchising fee which is a lump sum amount and then royalty fee, reservation fee and marketing fee which are a percentage of the total room sales.

Thus, the process of franchising is an extremely successful business strategy in the world of hospitality.

- ***Referral groups*:** The concept of referral groups was developed in the US in 1960s by independent hotel operators in order to compete with the chain hotels.

  In referral groups, independent hotels join together to form an association for a common purpose. Thus, an independent hotel gains a broader level of exposure and a number of advantages by joining the referral group.

(vii) Classification on the basis of ownership of guests

The following are the types of hotels on the basis of ownership:

- ***Condominium hotels:*** A condominium development involves a joint ownership of a complex. Each owner purchases and has full benefit of a unit such as a guest room, suite, apartment or a villa and shares the cost, common to the whole complex. Each owner can occupy or sell his unit independently but is obliged under the terms of contract to contribute towards the pool of common facilities and services. The entire concept of the condominium is costlier than timesharing and hence this concept could attract only few guests and thus resorts using this concept started incurring huge losses.
- ***Timeshare hotels:*** The concept of timeshare hotels was introduced in Europe in the year 1970, when the condominium hotels started incurring huge losses and were on the decline. According to the concept of timesharing, individual guests will purchase the ownership of the particular unit of a resort for a definite period of the year and will occupy the unit during that period. For example, Mr Kumar may purchase a particular cottage of a resort for the first three weeks of January during which he may stay at the cottage. Other individuals will purchase the ownership of the cottage for the remaining eighteen weeks of the year. Thus, in timeshare hotels, there are multiple owners for a single cottage or unit of a resort or a hotel. The process of timesharing is far cheaper than the condominium concept and hence was more popular in the hospitality industry. One of the unique advantages of the timesharing concept is that the owners of the units can easily trade their ownership time with other owners in other locations. In India, a few of the holiday resorts have started the concept of timesharing and are earning huge profits; example, Sinclair's resort in Darjeeling.

(viii) Unusual hotels

The unusual features of lodging and the environment of the hotel make these hotels remarkable tourist destinations (Figure 5.6).

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The Treetops Hotel in Aberdare National Park, Kenya



Desert Cave Hotel in Coober PedySouth Australia



The Ice Hotel in Jukkasjärvi, Sweden



Gravetye Manor



Utter Inn in Lake Mälaren, Sweden



The Capsule Hotel, Japan

Fig. 5.6 *Some Unusual Hotels from Around the World*

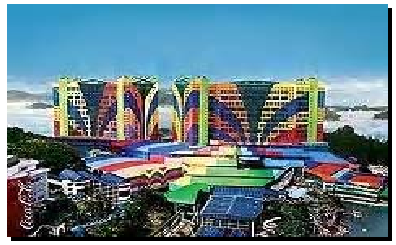
Table 5.1 compiles the list of such unusual hotels.

Table 5.1 *Unusual Hotels*

Unusual Hotels	Description
Tree house hotels	They are built with living trees as structural elements. The few popular examples of tree house hotels are: • The Costa Rica Tree House in the Gandoca-Manzanillo Wildlife Refuge, Costa Rica • The Treetops Hotel in Aberdare National Park, Kenya • The Ariau Towers near Manaus, Brazil, on the Rio Negro in the Amazon • Bayram's Tree Houses in Olympos, Turkey
Cave hotels	They are famous for being built into natural cave formations and some with rooms underground. Some examples are: • Desert Cave Hotel in Coober Pedy South Australia • Cuevas Pedro Antonio de Alarcón in Guadix, Spain
Capsule hotels	These hotels are a type of economical hotels where people sleep in stacks of rectangular containers.
Ice and snow hotels	The ice hotels melt every year in spring and are rebuilt each winter, examples of which are: • The Ice Hotel in Jukkasjärvi, Sweden. • Hotel de Glace in Duschenay, Canada. • The Mammut Snow Hotel in Finland is located within the walls of the Kemi snow castle • Lainio Snow Hotel is part of a snow village near Ylläs, Finland
Garden hotels	They are hotels which were famous for their gardens before they became hotels. Some of them are: • Gravetye Manor, the home of garden designer William Robinson • Cliveden, designed by Charles Barry with a rose garden by Geoffrey Jellicoe
Underwater hotels	These hotels have underwater accommodation, such as the following examples: • Utter Inn in Lake Mälaren, Sweden • Jules Undersea Lodge in Key Largo, Florida (requires scuba diving to access its rooms)
Others	Other examples of usual hotels are: • The Library Hotel in New York City, has each of its ten floors assigned to one category from the Dewey Decimal System. • The Burj al-Arab hotel in Dubai, United Arab Emirates, is structured in the shape of a boat's sail, built on an artificial island. • The former ocean liner RMS Queen Mary in Long Beach, California, uses its first-class staterooms as a hotel. • The Jailhotel Löwengraben in Lucerne, Switzerland is a converted prison now used as a hotel. • The Luxor, a hotel and casino on The Las Vegas Strip in Paradise, Nevada, United States due to its pyramidal structure. • The Liberty Hotel in Boston, used to be the Charles Street Jail.

Table 5.2 depicts those hotels that have set world records in various realms.

Table 5.2 *Hotels with World Records*

Largest Hotel The first world hotel in Genting Highlands, Malaysia, is listed in the Guinness Book of World Records as the world's largest hotel with a total of 6,118 rooms.	
Oldest Hotel Hoshi Ryokan in the Awazu Onsen area of Komatsu, Japan, is the oldest hotel (opened in 717) in the world as per the Guinness Book of World Records.	
Tallest Burj Al Arab in the United Arab Emirates is the tallest building used exclusively as a hotel. However, the Rose Tower, also in Dubai, has already topped Burj Al Arab's height at 333 m (1,090 ft), which will take away this title upon its opening.	

5.3.2 Marketing a Hotel

The hospitality industry thrives even during the worst economic meltdowns. Out of the entire range of hospitality services, hotels conduct the most thriving business. High quality services, courteous and amiable staff along with excellent facilities are the facets for a successful and profit churning hotel. There are various other factors which contribute to a hotel's success, such as:

(i) Marketing

A hotel requires good marketing in order to attract customers over their competitors. They need to retain their current customers in such a manner that they become regulars to the hotel and spread positive word-of-mouth regarding it to known people. The hotel staff should form strong relations with their current customers and maintain relations with past customers, in order to retain their potential clientele.

- Simple actions like sending birthday cards and complimentary gifts and coupons on festivals and anniversaries help in making a big difference with key prospects.
- Provide ample amount of flyers at the local centre as well as the state visitor centres to reach maximum amount of audiences.

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- Provide your hotel guests with a well-structured questionnaire or feedback-form encompassing service quality ratings for all departments of the hotel to understand the customer requirements and the changes or improvements that need to be brought into effect.
- Make and distribute colourful brochures of your hotel to prospective clients. Moreover, have an attractive and informative website to promote your hotel. Enlist your hotel into a group advertising on the web like besthoteldirectory.com so that visitors can get your hotel's information and reference from a reliable website and would consider it for their stay.
- It is important to have your hotel's visiting cards on your person at all times since they might help build corporate clientele at various conferences or functions. They might even be useful to any prospective client you might meet during meetings or at any social gathering.
- Make sure that the website for your hotel is easy to navigate and is colourful with many pictures of all your facilities and entertainment opportunities for guests. There should be separate sections for contact information, direction and accessibility, hotel information and online booking facilities on the home page of the website.
- Lastly, always send thank-you notes to all the travel agents you are in business with so that they are more enthused to promote your hotel and packages to their customers. Even little things go a far way in flattering people in the hotel industry.

(ii) Hotel's Service

Another important point would be the service provided by the hotel to its guests. It is favourable for the hotel to impress their guests by providing excellent services and charge the right price according to the hotel's standard and in symphony with the prices of other similar hotels.

(iii) Hotel's Position

The location of the hotel is a very significant factor since people prefer to stay at hotels which are accessible and close to all the markets, malls and tourist spots, making it convenient for them to commute there.

5.3.3 Guest Satisfaction Factors

Ensuring and maintaining guest satisfaction is one of the biggest contemporary challenges of management in hotel industries. Guest satisfaction is characteristically defined as a post-consumption evaluative judgement concerning a specific product or service. It is the result of an evaluative process that contrasts pre-purchase expectations with perceptions of performance during and after the consumption experience. In the quest for competitive differentiation and customer retention, guest satisfaction has increasingly been identified as key factor. According to Lam and Zhang, customer (guest) demand for quality products and service has of late become increasingly evident to professionals associated with the tourism and hotel industry. Of all the demands of guests, service quality has been increasingly recognized as a decisive factor in the success of any business.

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The expectancy disconfirmation theory— satisfaction level is a result of the difference between expected and perceived performance — is the most widely accepted conceptualization of the customer satisfaction concept. Satisfaction (also referred to as positive disconfirmation) takes place when product or service is better than expected. Dissatisfaction (also referred to as negative disconfirmation), on the other hand, refers to performance worse than expected results. Studies have shown that guest satisfaction may have direct and indirect impact on business results.

Five factors for guest satisfaction in hospitality sector

For restaurants, hotels, pubs and other hospitality businesses, customer or guest satisfaction depends on various factors. Ensuring customer satisfaction is an effective way of achieving client loyalty. Service quality is as important as product quality. Service delivery can transform an average hotel into a great one. The following are the five top drivers of guest satisfaction in the hospitality industry.

- ***Cleanliness:*** According to surveys, for a large proportion of hotel guests, cleanliness is the top priority when choosing accommodation. Cleanliness was valued over pricing, location, and security in the survey. Thus, to ensure a great customer experience, restaurant, pub, and bar managers should implement a stringent cleaning schedule.
- ***Variety:*** Variety is a crucial factor in furthering guest satisfaction and recurring business. A simple way to get an idea of what you should provide in terms of choice of foods is through customer surveys. Such surveys help in deciding what to add and what to remove from your service experience.
- ***Accuracy and timeliness:*** Accuracy and timeliness in service delivery must be a primary objective of any hospitality business. If the guest time and again fails to get their product on time or they frequently are not served the product they ordered, the credibility of the hotel is downgraded.
- ***Experience:*** As in any service industry, focusing on the process of service delivery from purchase to departure in a hotel results in a better understanding of how the hotel can improve their overall experience.
- ***Managing errors or oversights:*** There are always possibilities of mistakes and oversights due to human error. However, the management of the hotel needs to implement a policy for quickly and effectively dealing with errors and oversights so that situation does not escalate and customers get plenty of support.

5.4 HOSPITAL SERVICES MAKETING

The marketing of hospital services starts from the structure of the hospital. The architect of the building must keep in mind the nature and business interest of the hospital and design it accordingly. The hospital design must take into account significant features like:

1. Ambulance point
2. Reception area
3. Car park area
4. Emergency management

Check Your Progress

5. List the classification of hotels on the basis of their location.
6. List the types of unusual hotels.
7. What are the various factors which contribute to a hotel's success?

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5. Wards accounting to sizes
6. Consulting rooms
7. Isolation wards
8. Security posts
9. Medical records unit
10. Rest rooms for nurses and doctors
11. Operation theatre and labour rooms
12. Laboratory and other diagnostics centre
13. Conveniences for male and female patients or visitors
14. Location of incinerator
15. Administration and accounts offices
16. Provision for waste points
17. Provision for other services

The design of the hospital should be simple and patient friendly in order to avoid patients being confused in case of emergencies. The hospital designers must observe the faults in other hospital structures to avoid them in the new hospital building and create a structure than can be marketed successfully. Marketing is done right from the beginning of the business venture.



Fig 5.7 *AIIMS, Delhi*



Fig 5.8 *Apollo Hospital*

5.4.1 Recruitment of Hospital Staff

The main concept which one has to keep in mind when hiring hospital staff is that they will be the marketers of the hospital facility to the guests and patients. Recruiting, starting from the gate-keeper to the Administrator or Director, must be done with a lot of precision and care in order to hire the right person for the right department. This is because the customer relationship will be the responsibility of the staff as they are the ones dealing with patients and visitors on a daily basis. They should be very dedicated to their jobs since hospitals deal with patients who are ill and the duty of the staff is to be soft and caring for the patients to feel comfortable and heal quickly. In hospitals, the hiring process should not be biased in terms of favours, convenience, friendship and physical appearance.

The staff must be pleasant, skilled and efficient in what their duties entail. The administration can even take the help of an outside consultancy service for recruitment if they do not have in-house facilities for manpower recruitment. The hospital team should receive a rigorous amount of training as their job is one where they have to be very vigilant at all times and need to have good customer relationship management skills. Regular staff appraisals help the management identify and distinguish between

the assets or liabilities in their staff, enabling them to take necessary action. Constant slackers in the staff must be replaced by more efficient and enthusiastic people to ensure productivity and a good name in the market for the hospital and its facilities.

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Fig. 5.9 *Caring and Friendly Hospital Staff*

Each organization compensates employees according to their performance, loyalty and dedication toward their work. If a hospital ventures to pay a slightly higher salary to its employees than other hospitals, it would become more profitable for them in the long run since the staff would be more dedicated and would consider it their duty to justify the wages paid to them. There would be less quitting, more quality healthcare and better customer relationship. People would prefer that hospital over others and would gladly pay any amount for the high quality and satisfactory services provided by them. In any service industry, the customer is considered to be at the highest pedestal, and service-providers should strive to please them and provide them with the best service possible for a long-lasting relationship.

5.4.2 Function of Hospital Marketing Department

The marketing department of any hospital is an important ancillary, responsible for bringing funds to enhance the facilities and services of the hospital. There are various functions performed by the marketing department of a hospital, such as:

1. Identify the customers of the hospital. There are four categories of customers:
    a) Private patients
    b) Health insurance patients
    c) Complimentary patients
    d) Retainerships
2. Understand the terms of the relationship with each retainer and HMO to ensure compliance from all.
3. Identify the services provided by the hospital including the specialties and sub-specialties.
4. Segment patient base from the information in their medical records.
5. Send bills on time.
6. Package hospital products and market the same to the public.
7. Form liaisons with all retained organizations.
8. Deal pleasantly and professionally in case of any queries.
9. Create a good public image of the hospital.
10. Obtain authorization from retainers and HMOs whenever necessary.
11. Organize customer forums regularly by bringing customers to meet specialist doctors and learn more about the hospital and various services available with them.

12. Complete other assignments given by the management to the marketing department.
13. Get regular feedbacks from patients.
14. Attend to the disputes regarding billing or any other complaints by patients.
15. Increase attendance from retainers
16. Collect payment cheques.

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5.5 EDUCATION SERVICE MARKETING

The main function of marketing is that it creates a demand for services in the market and pursues key prospects as well as existing customers. The extent of competition is widespread and exists in all kinds of service market segments. It has become a necessity for companies to obtain a competitive advantage over its counterparts. The educational service sector also faces a good amount of competition. The burst in population along with the various government policies for educational benefits and growth has increased the competition in this sector. Educational institutions which offer professional courses like MBA, BBA, etc. are also active participants in the competitive market. These institutions have also developed effective marketing strategies and plans to attract students and professionals alike. They seldom practice customized approaches towards marketing to survive the competition in the market.

The economic rise of India is a result of the highly-developed education system. The private institutions have an important role in the progress of education. The education market for private education in India was worth $40 billion in 2008 and is estimated to have increased to a whopping $68 billion in 2012. In 2009, there were 20 Central Universities, 215 State Universities, 100 Deemed Universities, five institutions established and functioning under the State Act and 13 institutes of national importance in India. Moreover, there are 16,000 colleges, out of which there are 1800 colleges exclusively for women, which function under the above-mentioned universities and institutions.



***Fig 5.10** Manipal University*



***Fig. 5.11** Amity University, Noida*

Check Your Progress

8. Identify the four types of customers using hospital services.
9. List five significant features that must be kept in mind while designing a hospital.
10. Give five important functions performed by the marketing department of a hospital.

5.5.1 Marketing Practices and Tools Used by the Professional Educational Institutions

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The education sector is purely a service sector and is heterogeneous, intangible, perishable and inseparable in nature. The service of education is based on the individual's reputation and the intangibility of the service. The quality of services in education cannot be compared and returned by the buyer once it has been availed. One of the unique features of educational services marketing is that it consists not only of the traditional 4Ps, namely product, price, place and promotion, but of the extended 3Ps (people, process and physical evidence) constituting the services marketing mix of 7Ps.

Marketing mix elements of educational services

Let us now discuss the 7Ps of services marketing in the case of educational services used by educational institutions as a tool of marketing.

1. Service

In terms of educational services, the services constitute intangible offers like services given by the faculty, the course, etc. and the product is denoted by the students receiving the service. Therefore, the product is a result of the services provided by the institute. With the help of the services and the products rendered by the service provided, the brand value of the education institutions is promoted and successfully marketed.

2. Price (Fees)

The price refers to the fees paid by a student for the services provided by the educational institution and availed by them. The price for services in the form of fees charged from students is determined by various factors such as service quality, reputation of the institution, competition, placement, infrastructure, location of the institute, private or public ownership, facilities provided, brand name of the institution, mode of education, etc. The price for services reflects its quality and the end product developed in accordance with that quality, which denotes the educational level of the students passing out of the institutions. The quality produced can be used as an education marketing tool by the institutions.

3. Place

Place denotes the location in which the educational institute is situated. This location is also known as the service centre. The institute situated in a Metro City or an urban area will have a greater competitive advantage than an institute situated in a rural area. Hence, place or location is also an important promotional tool for educational sector marketing.

4. Promotion

Promotion refers to all sorts of communication media used by a service provider in the education market. Promotion constitutes of various mediums like publicity, public relations, direct marketing, advertising, word-of-mouth, web marketing, point of sale, etc. The promotional mediums used by educational institutes consider only two elements of promotional marketing, which are advertising and web-based marketing. Out of all

mediums used for promotion, the best tool is positive word-of-mouth for marketing of educational institutions.

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5. People

In the context of education service marketing, people constitute the teaching fraternity and the rest of non-teaching community indirectly or directly involved with the services provided to the students in the educational institution. The retention and satisfaction of students with the services provided to them completely depends on the manner in which services are provided to them by their teachers. Teachers are known as service providers or facilitators of services. The growth and success of an educational institution, especially the professional educational organization, depends upon the effectiveness, dedication, competency, sincerity and devotion of their teaching fraternity. This element of the services marketing mix is the most direct and interactive component.

6. Process

The process of services marketing mix constitutes the mechanisms, procedures and flow of activities leading to an exchange of service value provided to customers. Service providers, who provide services to students, are an integral cog in providing a competitive advantage to the educational institute. The simplicity, of a service process along with being student-friendly, technology based, hassle free and understandable makes quite a good impression on the students receiving the service. For example, the length of time a student has to wait for a staff-member or the way a student is treated or taught by them makes quite a difference on the notion of the student about an institute.

7. Physical Evidence

Physical evidence is the direct environment in which a service is being rendered to students, allowing them to assess whether they have received proper services by the educational institution or not. For example, the physical facilities provided to the student, the physical environment in which the student receives the service and the infrastructure in which the service is being provided to the student. The physical environment includes a good parking facility, sports facility, swimming pool, state-of-the-art technology, good ambience, attractive building, gymnasium, transportation facility, hostel, indoor stadium, air-conditioned class rooms, laboratories, library, modern teaching aids, cafeteria, etc. All these factors constitute towards making the educational institution a marketable entity for services.

5.5.2 Other Popular Marketing Tools For Education Services

There are various other marketing strategies and tools used for educational services marketing than the 7Ps. The marketing of educational institutes can be further done by affiliation or approval of the institute and its courses from government authorities like MHRD, UGC or AICTE, lucrative job offers, institute’s brand name and ranking, conducting admission tests like CAT, INCAT, MAT, etc. and the position of the institute in the education business. For example, if the CAT exam is administered in the institute, it gives out a good reputation and impression on the target students and their parents. The institutes hiring faculties from reputed universities like IIM, IIT, JNU or other famous overseas universities have an edge over their competition in the market. All of

these factors can be used as marketing techniques and strategies for the benefit of the education service sector.

5.5.3 Gap Analysis

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The marketing styles adopted by management institution are quite dubious, giving rise to a few vital questions – are the approaches adopted by them customer-centric? Is there any gap in customer services? Are these marketing styles student-centric, student-friendly or student-driven? In most of the cases it is found that these are just some of their own publicity tactics and their main motive of maximizing profit is still their central focal-point. Their focus is always on highlighting their positive aspects and strengths to attract maximum students towards their institute. Each institute is concerned with concealing their weaknesses and negative aspects from the target students. Keeping the concept of modern marketing in mind, an institute should do all they can to make customers their priorities and main focus in order to maximize their profits and enhance their reputation among students.

5.6 ENTERTAINMENT/RECREATIONAL SERVICE MARKETING

The Entertainment and Recreational sector comprises of a varied range of establishments providing facilities for cultural, recreational and entertainment purposes for their patrons. The entertainment and recreational sector include:

1. Establishments preserving and exhibiting sites and objects of historical, educational or cultural interests.
2. Establishments involving the production, participation and promotion of live performances, exhibits or events meant for public viewing.
3. Establishments operating or providing facilities enabling their patrons to participate in their recreational activities or pursue their interests and hobbies leisurely.

The marketing of entertainment and recreational activities is one of the fastest growing sectors in today's marketing mix. Entertainment marketing faces the toughest competition since the economic growth of our country has enhanced the need for better and vibrant entertainment facilities. It helps connect with the target audience on an emotional level, generating profitable results and gaining loyal and regular clientele. Entertainment marketing comprises marketing of entertainment products like movies, music, art and theatre, promotional events, launches and moreover, using entertainment products to market other products or brands.

With the growth of the entertainment industry, there has arisen a great necessity for marketing each entity in a different manner. Movies require multiple promotions all over the country and sometimes even overseas depending on the budget and the reach. The music industry has also gained much recognition and acceptance from the public, making music video launches big marketing events. Art and theatre is also quite famous among the art-lovers as they prefer live theatre over movies making its marketing quite exhaustive and complicated. The marketing required for the promotion of these entertainment entities require the services of various media houses and media agencies,

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who are experts at organizing public promotional events. Many brands use the allure of brand ambassadors to launch new products and brands making this another important facet of entertainment marketing.

In order to incur successful entertainment marketing, there should be a relevant connection between the entertainment proposition and the brand which can attract the target audience. The focus of entertainment service marketing is to connect the brand of the client with the promotional program and to develop techniques and strategies for connecting the brand with the marketing mix. Innovation and creative thinking are the drive behind entertainment marketing using elements like on-pack promotions, websites, in-store promotions, media coverage, medium of television for masses, digital elements, etc. This enables the entertainment services to prove as a popular technique for acceptance by the public.

5.6.1 Factors Affecting Supply and Demand for Entertainment/ Recreational Services

Supply and demand for entertainment/recreational services are determined by the following factors:

- **Increase in discretionary time:** The growth of individual discretionary time is a major influence in the increased participation in entertainment/recreational activities, i.e., increased supply and demand for entertainment/recreational services. Modern human life is characterized by freedom from an agrarian economy, increased holidays, shorter work weeks and paid vacations. These factors combine to give people more opportunities for participation in recreation. This, in turn, has resulted in more supply and demand of entertainment services.
- **National influence:** A spectacular growth in the gross national product (GNP) and personal income has led to growth in expenditure on recreation/ entertainment, which, in turn, has resulted in more supply and demand of entertainment services.
- **Population trends:** The steady growth in the population and diversity has increasing impacts on the demand and supply of entertainment services.
- **Commodification of leisure:** Today different types of play are developed in complex, expensive forms by profit-seeking businesses. Many giant conglomerates have taken control of huge corporations globally that run music, television and movie business.
- **Influence of technology:** Technology has played a vital role in providing new forms of recreation for the world population. For example, outdoor recreation has been using increasingly complex and expensive devices in activities like skydiving, hang gliding, boating, hunting and fishing. Computer dating provides new varieties of play settings and virtual realities. All these have led to an increased supply and demand for entertainment/recreational services.
- **Decline of rural areas and growth of urban areas:** The contemporary world is marked by the decline of rural areas, the growth of cities and industries, and the growth of suburbs and exurbs. Individuals today tend to augment travel time for ensuring a seemingly improved quality of life. Recreation and leisure play an important role in the environment characterized by population shifts. As a result, there have been increases in demand and supply of entertainment/recreational services.

Check Your Progress

11. Enumerate various other marketing strategies and tools used for educational services marketing.
12. What are the various elements that constitute the physical evidence in education service marketing?
13. The price for services charged from students is determined by which factors?
14. What is entertainment marketing?
15. What is the focus of entertainment service marketing?

- **Increase in health consciousness:** There has been a ever growing realization that modern life is usually inactive, plagued by tensions, and subject to a number of unhealthy habits, such as overeating, smoking and drinking. As a result, popular concern has developed about improving one's health, vitality and appearance through diet and exercise. According to health and fitness studies, the most successful fitness programmes are those that provide an ingredient of recreational interest and satisfaction. This has resulted in an increased supply and demand for entertainment/recreational services.
- **The changing family:** Over the last three decades or so, families have changed more than in the previous two centuries. Gone are the days of stay-at-home mothers, the single-income source, three or more children and marriage as a lifetime commitment. Today's societies are characterized by nuclear families, adoption with no marriage, wedding after the baby, single moms, two dads, etc. Consequently, the challenge for recreation and family service agencies is to determine how to serve the new permeable family. Increasing recreational/ entertainment opportunities is one viable solution to this problem.

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5.7 SUMMARY

Some of the important concepts discussed in this unit are:

- The purposes of travel are leisure, recreation and holiday, visiting friends and relatives, business and professional, health treatment, religion or pilgrimages, etc. where travel for leisure is central to our understanding of tourism since it is linked to social and economic progress. Therefore, tourism service marketing has gained quite a significance in the service sector marketing today.
- The total demand for tourism consists of different groups of people, with different preferences, tastes and spending power. There are a lot of different market segments, each seeking a particular product with distinctive characteristics, which is why the demand has to be analysed and the market for a destination segmented accordingly.
- The product is differentiated according to market segments and markets are segmented according to the entire range of products offered, after which the supply and demand are matched. Each market segment represents people with different characteristics and needs like nationality or place of cultural origin, stage of life, social grade, psychographics, motivation and interests, mode of travel and the distance travelled by them.
- Successful segmentation which enables clearly defined marketing targets is assisted by interconnecting various kinds of data and criteria, since data is built-upon age, nationality, gender, occupation, income, motivations and interests, needs and preferences, lifestyles, stage of life, etc.
- Holidays are the most important tourism market characterized by freedom of choice on the part of the individual in terms of selection of destination, transport mode, etc., and by strong competition among the various segments of the tourism industry (including destinations) that supply the market. Thus, considerations such as price become very important and holidaymakers can be divided into those who are conservative and risk-averse and those who wish to try something new and are willing to accept some risk.

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- Reliable forecasts of tourism demand are essential for efficient planning by airlines, shipping, companies, railways, coach operators, hoteliers, tour operators, food and catering establishments, providers of entertainment facilities, manufacturers producing goods for sale to tourists, and other industries connected with the tourism market. Such forecasts are also of great interest to governments in origin and destination countries, and to national tourist organizations.
- A hotel is an establishment whose primary purpose is to provide accommodation to guests along with additional services such as food and beverage services, housekeeping services, laundry services and uniformed services. Out of the entire range of hospitality services, hotels conduct the most thriving business with its high quality services, courteous and amiable staff along with excellent facilities. The factors which contribute to a hotel's success are the hotel's marketing, the hotel's services and the hotel's position (location).
- The marketing of hospital services starts from the structure of the hospital and the designer of the building must keep in mind the nature and business interest of the hospital since the design should be simple and patient-friendly. The marketing department of any hospital is an important ancillary, responsible for bringing funds to enhance the facilities and services of the hospital.
- Recruiting for hospitals must be done with a lot of precision and care since managing the customer relationship will be the responsibility of the staff as they are the ones dealing with patients and visitors on a daily basis. They need to be very dedicated, soft and caring for the patients and the hiring process should not be biased in terms of favours, convenience, friendship and physical appearance.
- The educational service sector also faces a good amount of competition with the increase in population along with the various government policies for educational benefits and growth in this sector. Educational institutions which offer professional courses like MBA, BBA, etc. are also active participants in the competitive market and they have developed effective marketing strategies and plans to attract students and professionals alike. The economic rise of India is a result of the highly-developed education system.
- The various marketing strategies and tools apart from the 7Ps of services marketing-mix used for educational services marketing are the affiliation or approval of the institute and its courses from government authorities like MHRD, UGC or AICTE, lucrative job offers, institute's brand name and ranking, the position of the institute in the education business and conducting admission tests like CAT, INCAT, MAT, etc.
- The entertainment and recreational sector comprises of a varied range of establishments providing facilities for cultural, recreational and entertainment purposes for their patrons. Entertainment marketing faces the toughest competition since the economic growth of our country has enhanced the need for better and vibrant entertainment facilities.
- Entertainment service marketing helps connect with the target audience on an emotional level, generating profitable results and gaining loyal and regular clientele. Entertainment marketing comprises marketing of entertainment products like movies, music, art and theatre, promotional events, launches and moreover, using entertainment products to market other products or brands.

5.8 ANSWERS TO 'CHECK YOUR PROGRESS'

1. The two reasons for which people travel are for pleasure or due to some obligation.
2. The characteristics and need of people representing each market segment for the purpose of tourism are:
   - Nationality or place of cultural origin
   - Stage of life
   - Social grade
   - Psychographics
   - Motivation and interests
   - Mode of travel/distance travelled
3. The four principal strategies for managing seasonality are – changing the product-mix, market diversification, differential pricing and encouragement / facilitation by the stage of the staggering of holidays.
4. The techniques and main quantitative methods used for demand forecasting in tourism are – univariate time-series, exponential smoothing, single exponential smoothing, trend curve analysis, classical decomposition approach, Box-Jenkins univariate method.
5. The classifications of hotels on the basis of their location are – downtown hotels, commercial hotels, airport hotels, resorts, motels and suburban hotels.
6. The unusual hotels include tree house hotels, cave hotels, capsule hotels, ice and snow hotels, garden hotels, underwater hotels and many others.
7. The factors which contribute to a hotel's success are – the hotel's marketing, the hotel's services and the hotel's position (location).
8. The four types of customers using hospital services are – private patients, health insurance patients, complimentary patients, retainerships.
9. five significant features that must be kept in mind while designing a hospital are:
   (a) Ambulance point
   (b) Reception area
   (c) Emergency management'
   (d) Operation theatre and labour rooms
   (e) Laboratories and other diagnostics centre.
10. Five important functions performed by the marketing department of a hospital are:
    (a) Identify the customers of the hospital.
    (b) Identify the services provided by the hospital including the specialties and sub-specialties.
    (c) Send bills on time.
    (d) Attend to the disputes regarding billing or any other complaints by patients.
    (e) Create a good public image of the hospital.

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11. The various other marketing strategies and tools used for educational services marketing are:
    - Affiliation or approval of the institute and its courses from government authorities like MHRD, UGC or AICTE
    - Lucrative job offers
    - Institute's brand name and ranking
    - Conducting admission tests like CAT, INCAT, MAT, etc.
    - The position of the institute in the education business.
12. The various elements that constitute the physical evidence in education service marketing are – a good parking facility, sports facility, swimming pool, state-of-the-art technology, good ambience, attractive building, gymnasium, transportation facility, hostel, indoor stadium, air-conditioned class rooms, laboratories, library, modern teaching aids, cafeteria, etc.
13. The price for services charged from students is determined by various factors such as service quality, reputation of the institution, competition, placement, infrastructure, location of the institute, private or public ownership, facilities provided, brand name of the institution, mode of education, etc.
14. Entertainment marketing comprises marketing of entertainment products like movies, music, art and theatre, promotional events, launches and even using entertainment products to market other products or brands.
15. The focus of entertainment service marketing is to connect the brand of the client with the promotional program and to develop techniques and strategies for connecting the brand with the marketing mix

5.9 QUESTIONS AND EXERCISES

Short-Answer Questions

1. Explain briefly the concept behind tourism service marketing.
2. How has the trend in international tourism developed in recent years?
3. Explain in brief the importance and concept of marketing in hotels.
4. What is the significance of recruitment in hospitals?
5. What are the functions performed by the marketing department of a hospital?
6. What is the gap analysis in education service marketing?

Long-Answer Questions

1. How has the demand in tourism changed over the years? Discuss
2. How is market research conducted for tourism service marketing?
3. Explain the significance of seasonality in tourism.
4. How is the demand in tourism service market measured?
5. Explain in detail the techniques and quantitative methods used in tourism demand forecasting.
6. Give a detailed discussion on the various categories in classification of hotels.
7. Discuss the services marketing mix in educational services used by using educational institutions as tools of marketing.
8. What is the importance of entertainment service marketing? Discuss in detail.

MODEL QUESTION PAPER

MBA Degree Examination

Fourth Semester

Time: 3 Hours **Maximum: 100 Marks**

PART A (5 × 8 = 40 marks)

Answer any FIVE of the following:

1. Examine the role of services in the Indian economy.
2. Explain how the vision and mission of services marketing are determined.
3. How are services positioned in the market? Discuss.
4. List the considerations to be kept in mind while positioning services.
5. How are resources allocated and monitored in services marketing?
6. Identify and discuss the techniques used for improving service quality.
7. Discuss how marketing of services occurs in the hotel industry.
8. List factors which determine the perception of customers for using transport services.

PART B (4 × 15 = 60 marks)

Answer any FOUR of the following:

9. Discuss how the marketing of services is planned.
10. Explain how a positioning strategy should be devised at various different levels based on the type of service.
11. Describe the features of product repositioning, tangible repositioning and intangible repositioning.
12. Why is a standardization of methods adopted in marketing of services?
13. Discuss the strategies to be adopted to develop, organize and implement quality service standards.
14. Analyse the changing trends in education services marketing in India.
15. Evaluate the methods of promotion and advertising used for consultancy services marketing.